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Annual Report of the Postmaster General Fiscal Year 1989

Striving for Excellence:

- Consistent timely service, measured independently.
- Postage rates below inflation.
- Increased employee commitment.



22

COMPLETED

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Consistent Timely Service



Rates Below Inflation



Employee Commitment

In last year's annual report, we featured our three-point agenda on the cover. We were guided by that agenda in Fiscal Year 1989, and will follow it in the years ahead. By staying that course, innovative and dedicated postal people have produced a number of success stories across the nation. The symbols above, which appear throughout this annual report, represent the Postal Service's strategic emphasis as Fiscal Year 1989 ends and the 1990s begin.

Financial and Operating Highlights

	Year Ended Sept. 30, 1989	Year Ended Sept. 30, 1988	Year Ended Sept. 30, 1988	Year Ended Sept. 30, 1987	Year Ended Sept. 30, 1986
Pieces of mail (millions)	161,603	160,954 [°]	160,491	153,931	147,376
Percent change	0.4	4.6	4.3	4.4	5.2
		(dollars in millions)			
Operating revenue	\$37,979	\$35,036	\$35,036	\$31,528	\$30,102
Percent change	8.4	11.1	11.1	4.7	8.5
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue forgone appropriation ^{°°}	\$ 436	\$ 517	\$ 517	\$ 650	\$ 716
Percent change	-15.6	-20.5	-20.5	-9.2	-26.2
Total operating expenses	\$38,371	\$36,119	\$36,119	\$32,520	\$30,717
Percent change	6.2	11.1	11.1	5.9	5.2
Net income (loss)	\$ 61	(\$ 597)	(\$ 597)	(\$ 223)	\$ 305
Fixed assets (net of depreciation)	\$ 8,833	\$ 7,801	\$ 7,801	\$ 6,628	\$ 5,588
Percent change	13.2	17.7	17.7	18.6	10.3
Equity (deficiency)	(\$ 402)	(\$ 460)	(\$ 460)	\$ 138	\$ 362
		(in units indicated)			
U.S. resident population January 1					
estimate (in millions)	247.1	244.6	244.6	242.2	239.9
Percent change	1.0	1.0	1.0	0.9	0.9
Pieces of mail per capita	654	658 [°]	656	635	614
Percent change	-0.6	3.6	3.3	3.5	4.2
Operating revenue per capita	\$153.69	\$143.24	\$143.24	\$130.16	\$125.46
Percent change	7.3	10.0	10.0	3.7	7.6
Operating expense per piece of mail	23.74^e	22.44 ^{e°}	22.51 ^e	21.13 ^e	20.84 ^e
Percent change	5.8	6.2	6.5	1.4	—
Operating revenue per piece of mail	23.50^e	21.77 ^{e°}	21.83 ^e	20.48 ^e	20.43 ^e
Percent change	7.9	6.3	6.6	0.2	3.2
Net income (loss) per piece of mail	0.04^e	(0.37 ^{e°})	(0.37 ^e)	(0.14 ^e)	0.21 ^e
Percent change	—	—	—	—	—
Career employees	763,743	763,781	763,781	750,808	731,765
Percent change	0.0	1.7	1.7	2.6	3.8

[°] Beginning in Fiscal Year 1989, a new methodology was implemented which reports Penalty and Franked mail within their appropriate classes. Fiscal Year 1988 volume data have been recast to reflect these changes. Volume data for prior years are not comparable.

^{°°} Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate in accordance with Congressional Mandate. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

To the Governors and the American People:

While the Postal Service made progress in Fiscal Year 1989, we fell short of our goals.

We ended Fiscal Year 1989 with a net income of \$61 million, a performance more than \$650 million better than the previous year. This marks the fifth time in the last 10 years that we have recorded a net income.

We handled more than 40 percent of the world's mail volume, and provided a vital link in improving communications among the peoples of the globe. As the fiscal year ended, plans were completed for hosting the Congress of the Universal Postal Union. Com-

pleted in December (Fiscal Year 1990), the UPU Congress was a highly successful event in which the 170 member nations committed to keeping mail competitive and relevant in the future.

In Fiscal Year 1989, the Postal Service processed more than 161 billion pieces of mail, establishing record volume for the 13th consecutive year. We saw an increase in the level of barcoded mail from

seven percent last year to 30 percent. Our total revenue amounted to a record \$38.9 billion, a \$3 billion increase over last year.

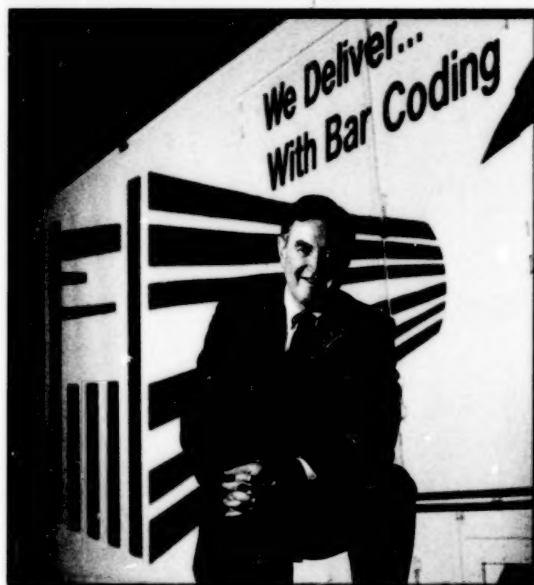
Our net income, however, had been projected to be \$562 million. Our volume increased only about 600 million pieces. Our productivity, for most of the year, lagged behind that of the previous year. Our \$501 million shortfall from plan, in fact, would have been much greater if not for aggressive cost control efforts undertaken by our managers and employees. These efforts headed off a potentially serious deficit. A turnaround in total factor productivity in the final quarter — an increase of 0.8 percent — was significant. This improvement was fueled primarily by

restraining workhour growth, which increased labor productivity by 1.1 percent. Clearly, we did a better job in this quarter of adjusting to the conditions of lower-than-expected volume.

As we enter a new fiscal year — and a new decade — restraining increases in our costs and continuing to increase productivity are critical to our performance. With our belts severely tightened, we still face a projected deficit of \$1.6 billion in Fiscal Year 1990. Our customers will be watching us closely because we will be filing with the Postal Rate Commission for consideration of new rates to take effect in 1991, and we also will be seeking to negotiate new labor agreements with our major unions.

Several troubling trends concern us as we move into this difficult period. Mail volume growth is flattening, partly because of the impact of previous rate increases. Workhours, the achievements of our fourth quarter notwithstanding, did not meet our expectations. Sharply rising health benefit costs and assuming the last vestiges of taxpayer support for the Postal Service — "indirect subsidies" arising from annuitant benefits and COLAs — also are adding to our financial challenges.

It is no secret that our customers are concerned about inflation in postal costs. Some customers have begun to think about alternative delivery. They question if we can make good on our service commitments. They wonder if we are too big or too inflexible to respond to their needs at prices they can afford. At least two major tests of alternative delivery networks are underway, and, if successful, these efforts threaten our existing volume.



Postmaster General
Anthony M. Frank



Obtaining the commitment of employees and equipping them with modern automated tools are key strategies for reducing postal costs.

Management is acutely aware of the Postal Service's impact on our business customers' bottom lines. We know that increases in our costs have been outpacing inflation and must be brought under control. We have heard our customers' complaints about rising postal costs. We recognize that without our customers' support and participation, we cannot get where we need to be in the future.

Clearly, the Postal Service must prove that we can provide consistent, quality service at affordable rates. That is a message that we must spread to all levels of the Postal Service.

To succeed now and in the future, we must concentrate on service, costs and higher employee commitment. All three are interdependent — customers want consistent and reliable service, provided at reasonable rates by courteous and caring employees. That is how they define excellence, and that is how we must define it.

Can we achieve excellence? We believe we can by meeting the objectives in our strategic business plan, which stretches through 1995. Those objectives are:

- To meet our goal of consistent timely service, measured independently, and to also increase the level of customer satisfaction with postal services;
- To bring cumulative inflation in postal costs below general inflation, which will help restrain both the frequency and amount of future rate increases; and
- To increase employee commitment to quality service by creating a working environment that fosters bottom-up communication, innovation and participation by everyone.

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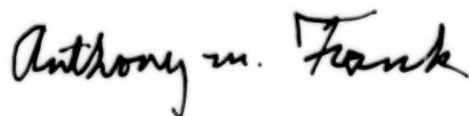
Only by concentrating on these things can we project our future with a high degree of confidence. Simply put, we know what we need to do, and we know how to do it.

We must renew our "service first" attitude with every letter we deliver, every stamp we sell and every question we answer. "We deliver" cannot just be an advertising slogan, it must be a reality.

We know that opportunity will keep knocking, but it may knock quietly and in unpredictable ways. We must learn to recognize opportunities to increase our revenue and the financial contribution our products make to our overhead. We must recognize automation and barcoding as our best defenses against continually rising costs. And we know that management and labor must work together to squeeze every penny of value we can out of our operating dollars.

In order to achieve these things, we must continue the progress we have made in reducing management-labor contention. By working together to unleash the talent and energy of the nation's largest civilian work force, we can achieve excellence.

The Postal Service has served our nation well for more than 200 years. As we move forward toward a new century, we are committed to make hard choices, to act, to invigorate this proud institution and to guarantee it continues to meet the needs of our customers. Consistent, timely service, rates below inflation and higher employee commitment — meeting these three objectives will demonstrate that public service can be world-class service.



Anthony M. Frank
Postmaster General
of the United States

January 9, 1990



Touch screen

Modern retail space and equipment being tested in two "Post Offices of the Future" in the Washington, DC area are one dimension of the improved customer service that continued in Fiscal Year 1989.





Every working day, the Postal Service raises the American flag over 40,000 post offices, stations and branches serving more than 200,000 city and rural routes. In High Point, NC, a letter carriers' EI QWL team planned and implemented a "Quarter Back" program in Fiscal Year 1989. If a letter is misdelivered, the carrier pays the customer 25 cents. Since the 1988 Christmas season, these carriers have delivered nearly 10 million pieces of mail and incurred only \$19 in out-of-pocket expenses.



Consistent Timely Service

The Postal Service renewed its commitment to reliable, cost-efficient service to its customers in Fiscal Year 1989.

The strategies for Fiscal Year 1990 in this area are simple and straightforward:

- Maintaining service levels despite cost reductions;
- Realigning delivery standards with customer expectations — and then meeting them consistently;
- Implementing external measurement systems for both customer satisfaction and delivery performance; and
- Looking at restructuring the classification schedule to offer customers more options and fewer restrictions.

In Fiscal Year 1989, new technology, cost-conscious management and a closer working relationship with customers contributed to significant changes in the way the Postal Service delivers quality service today and in the future.

Strategy Cuts Overhead, Not Service. The addition of more than 1.5 million delivery points, a growth in mail volume of about 600 million pieces and a 24 percent increase in health benefit premiums in Fiscal Year 1989 raised postal costs, but the Postal Service was vigilant in holding down administrative expenses wherever possible.

To drive down costs, the Postal Service put an ambitious cost-cutting program in place to reduce expenses. One element of this cost control effort was the consolidation of two field divisions and 36 management sectional centers in September 1989. This action eliminated some 1,200 administrative positions and will produce estimated savings of \$35 million annually.

First-Class Mail Delivery Standards to Be Modernized. In September 1989, the Postal Service began a major effort to ascertain customers' delivery expectations for First-Class Mail by asking business and residential mailers to define their needs for timeliness of delivery.

The need to reexamine these standards was confirmed by Fiscal Year 1989 service performance. Overnight stamped First-Class

Mail service performance was 94 percent, one percent less than the previous year. Overnight metered First-Class Mail met standard 92 percent of the time. This was one percent higher than last year. Two-day and three-day service was up slightly, but was still below the 95 percent level.

This move also was prompted by survey results which showed that the Postal Service could enhance customer satisfaction with First-Class Mail delivery by providing more consistent overnight, two-day and three-day delivery in line with customer needs.

The surveys mark the first systematic effort by the Postal Service to assess customer expectations and needs for First-Class Mail delivery, and the first major modification of delivery standards in nearly two decades.

Worksharing Proposals Begin Implementation. In November 1988, the Postal Service Mail Industry Worksharing Team submitted its final report, and 12 of the Workteam's 36 proposals were completed in Fiscal Year 1989.

The proposals included:

- The first stage of a postage certification system for bulk mailers who document that their systems can presort to specified depths and apply correct postage with an error rate of five percent or less.
- Allowing customers to mix five-digit bar-coded and non-bar-coded mail with ZIP + 4 mailings. This is one of several steps to increase the volume of pre-bar-coded mail.
- Extending computerized Address Change Service to third-class bulk business mailers. The Address Change Service was begun in 1986 so second-class mailers could correct computerized newspaper and magazine address lists more quickly and efficiently. Address Change Service will be extended to First-Class Mail and Fourth Class Mail in Fiscal Year 1990.

In Fiscal Year 1989, new technology, cost-conscious management and a closer working relationship with customers contributed to significant changes in the way the Postal Service delivers quality service today and in the future.



- Giving small volume mailers access to the National Change of Address System via diskette.

- Providing Operation MAIL (Mail Addressing Improvement Link) audits on demand to help customers keep more accurate address lists.

Other innovations included a standard endorsement for ZIP + 4 and non-ZIP + 4 mailings, simplification of postal regulations so customers could produce more pre-barcode mail for automated processing and enhanced programs to reduce undeliverable-as-addressed mail.

Seven of the other proposals will be included in the next general rate ease, and the other 17 proposals are scheduled for implementation in 1990.

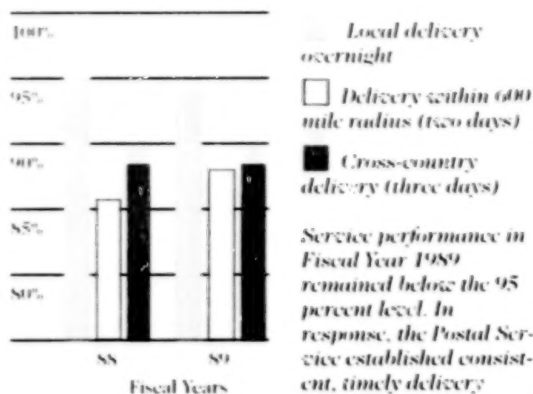
Public Perceptions of Postal Service Remain High. During Fiscal Year 1989, the Postal Service continued its use of both internal and external studies to track consumer attitudes and trends as they relate to postal products and services. Each of the studies reflected positive rebounds in ratings from the lower ratings received in Fiscal Year 1988.

The most recent semi-annual National Tracking Study, conducted in April 1989, indicated that the general public's attitude toward the Postal Service remained very favorable. In the survey, 83 percent of the general public reported overall satisfaction with the postal services they received compared to 82 percent in October 1988.

The Division Attitude Study, first conducted on a semi-annual basis in Fiscal Year 1985, measures areas of service that postal customers have indicated are of greatest concern to them. The five areas are reliability of performance, local post office perceptions, speed of delivery, employee courtesy and lobby lines. Compared to the previous year, consumers' perceptions of the Postal Service for Fiscal Year 1989 improved significantly in all five performance areas.

In external surveys, for the sixth consecutive time since the public's attitude toward 12 Federal departments has been surveyed by the Roper Organization, the public gave

National Service Performance (Stamped First-Class Mail)

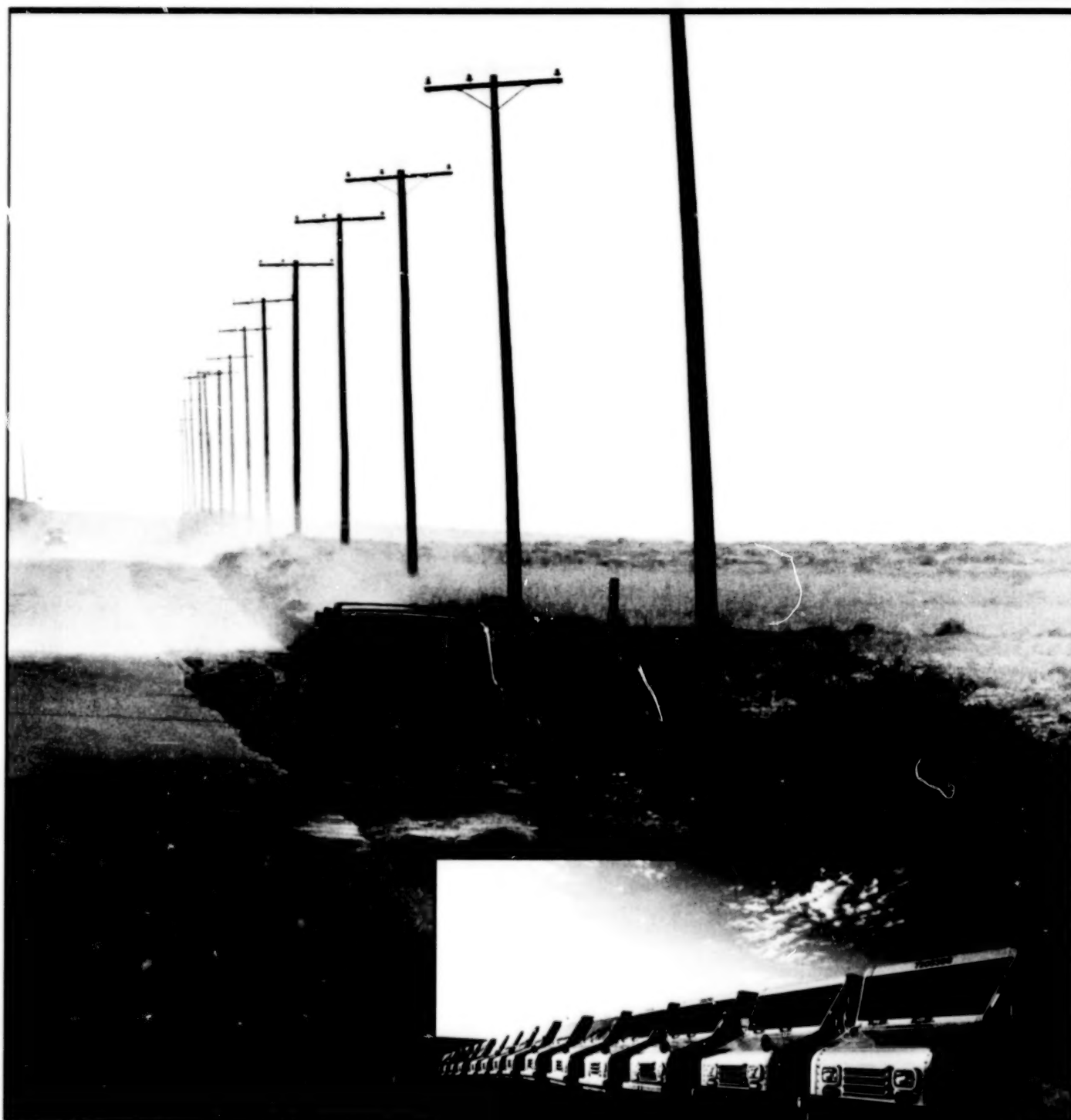


Service performance in Fiscal Year 1989 remained below the 95 percent level. In response, the Postal Service established consistent, timely delivery performance, measured independently as one of its strategic goals.

the Postal Service the highest rating (75 percent) in response to an April 1989 survey. This rating was up 13 points from the previous year.

External Service Performance Measurement Systems Being Developed. During Fiscal Year 1989, the Postal Service began development of three additional service performance measurement systems.

The new Customer Satisfaction Index will measure how satisfied household customers are with the Postal Service. The new system will give customers the opportunity to rate the Postal Service overall and on a variety of individual attributes pertaining to window services, lobby operations, delivery of mail, ease of access to postal facilities and how well the Postal Service handles customers' problems and concerns.



The Postal Service delivered 533 million pieces of mail every business day to more than 116 million addresses in Fiscal Year 1989. This represents a growth of more than 1.5 million over the previous year. Rural deliveries increased 2.9 percent to about 20 million in Fiscal Year 1989. To help service this growing delivery network about 37,000 fuel-efficient Long-Life Vehicles were deployed by the end of Fiscal Year 1989.



Conducted by a private vendor, the Customer Satisfaction Index will help pinpoint customer satisfaction in a three-digit ZIP Code, management sectional center, field division, region or national area. National implementation of this system will begin in the second half of 1990 and will be completed in 1991.

The Postal Service also requested proposals in Fiscal Year 1989 for a system to measure First-Class Mail service from slot-to-slot (from the time a letter is mailed to the time it is delivered to the addressee). This External First-Class Mail Measurement System will be a reporter-based system run by an independent contractor using pieces seeded into postal mailstreams from across the nation. Reporters will relay the date of receipt to the contractor. This system is expected to begin in the final quarter of Fiscal Year 1990.

The Third-Class Mail Analysis System will be a joint effort between the third-class mailing community and the Postal Service. The costs of this system will be shared by the Postal Service and participating mailers who subscribe to the system.

Like the proposed External First-Class Mail Measurement System, this reporter-based system will provide analytical information concerning processing and delivery of third-class mail. A special feature is that participating mailers will be able to obtain service performance information essentially on an as-needed basis for specific mailings.

Supervisors Use Computer Technology for Quantitative Management. Programs for quantitative management and planning tools progressed and expanded in Fiscal Year 1989. An integrated approach to the development of decision support systems at all levels of the Postal Service has led to a number of significant developments which tie to efficient and effective service.

The Supervisor's Workstation, an operational planning and control system for supervisors in mail processing facilities, was developed and field tested in Kansas City, MO and Springfield, MA. This system uses artificial intelligence to summarize conditions on the workroom floor in terms of mail volume and staffing. It will highlight trouble spots and will allow operations managers to determine the status of current mail processing operations, to project mail processing cost and service impacts based on site specific conditions and to evaluate alternative staffing and scheduling.

The Postal Service also developed a new Decision Support Information System that helps delivery supervisors in postal facilities with 20 or more city delivery routes dedicate more time to supervising and less to paperwork. This computer-based data collection and analysis system will process volume, workload and other job-related information and make it available to delivery supervisors. This new system eliminates tedious manual reporting and offers quick turnaround of important information supervisors need to determine overtime, scheduling and other needs. This system will have an impact on costs and timeliness of delivery operations.

Deployment began in September 1989 and was completed by the end of the calendar year.



MAIN MENU

SWS TOUR PROJECTION

16:53

TIME OF INFORMATION

DATA AS OF 16:45

STAFFING MACHINES SUMMARY

Outgoing
Incoming

MMP Projected Clear Time

043

Manual MP Letter

18:45

C.E.T.: 18:30
Clear Time: 18:55

083

LSM MMP

C.E.T.: 17:45
Clear Time: 18:15

113

MMP Pouches

17:15

C.E.T.: 17:25
Clear Time: 17:30

117

MP Opening Trays

17:15

C.E.T.: 17:25
Clear Time: 17:30

833

MOCR MMP

18:15

C.E.T.:
Clear

873

BCS MMP

18:15

C.E.T.: 17:40
Clear Time: 17:45

073

Manual MP Flat

18:00

C.E.T.: 18:30
Clear Time: 18:55

143

FSM MMP



The Supervisor's Workstation, an expert system for mail processing supervisors, was developed in Fiscal Year 1989. This workstation relies on artificial intelligence to help supervisors adjust to changing mail flows and related staffing. Just as new technology is helping the Postal Service achieve more consistent service, improving labor-management relations also is contributing to this goal.



Postal Inspectors Stop Mail Fraud and Catch Drug Dealers, Child Pornographers and Wall Street Insider Traders. Protecting postal assets, employees at work and the mailing public has been the purview of the Postal Inspection Service for more than two centuries.

Postal Inspectors were on the front line in the war on drugs, making 444 arrests in Fiscal Year 1989 for transporting illegal drugs. Likewise, the Inspection Service has been at the forefront of federal efforts to eradicate the sexual exploitation of children through child pornography.

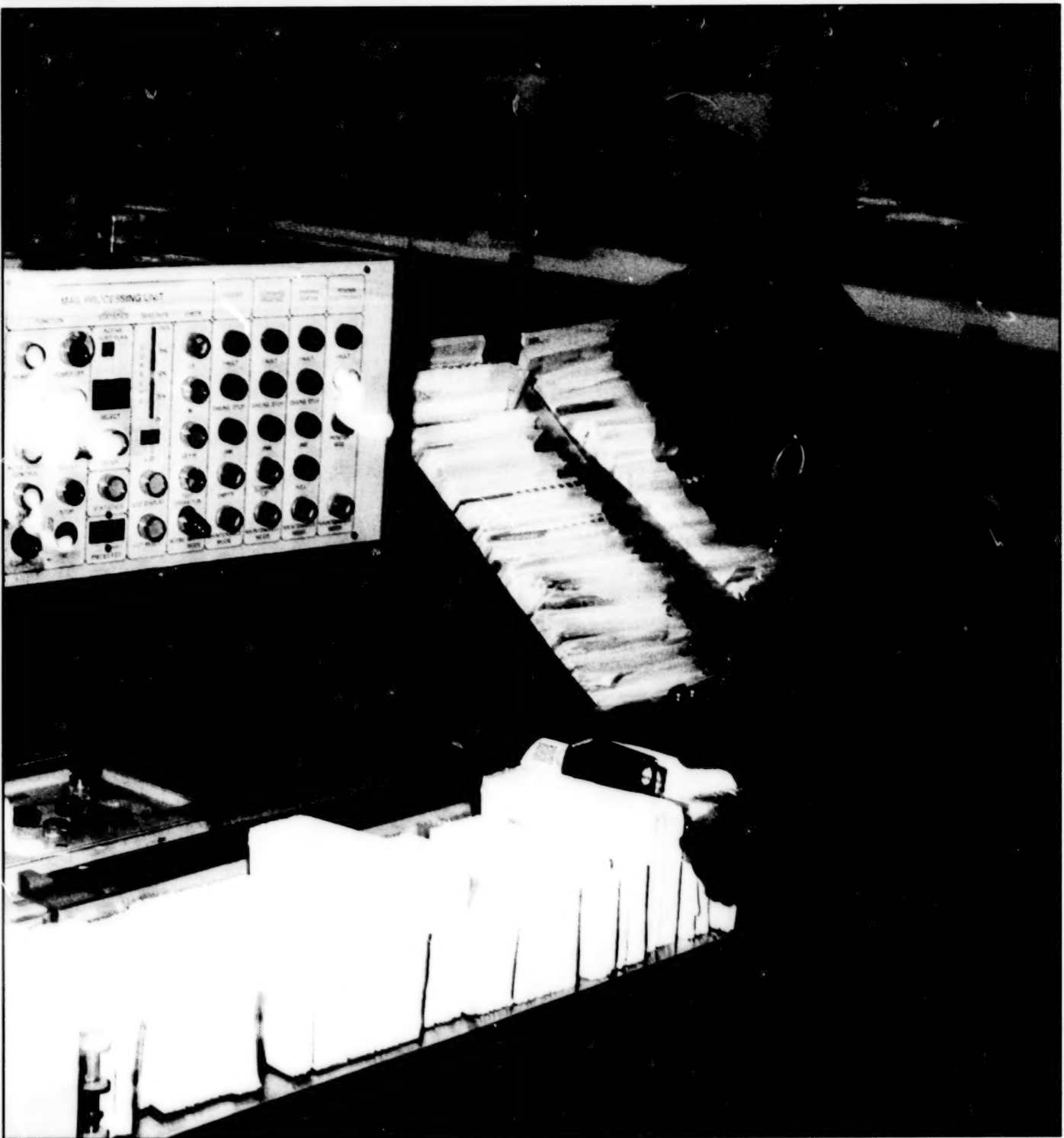
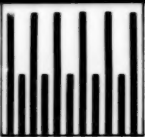
Neither did the rich and famous avoid the scrutiny of postal inspectors. The latest series of Inspection Service-led insider trading investigations resulted in the arrest of broker Michael Milken. The brokerage firm of Drexel, Burnham, Lambert, Inc. pleaded guilty to mail fraud charges in a related Inspection Service case. (The Postal Service recovered \$78 million as its share of the \$673 million securities fraud settlement.) And hotel magnate Leona Helmsley was convicted of mail fraud due to the investigative efforts of the Postal Inspection Service.

The Postal Inspection Service also conducts audits of postal capital expenditures, operations and programs to determine that planned results are being achieved. The oldest Federal law enforcement agency, the Inspection Service protects the Postal Service and its employees from criminal elements.

The Postal Service buys more than \$4 billion annually in supplies, services and transportation, a figure that ranks as its second-largest expense item after salaries and benefits. Postal contracts for transportation represent a significant portion of these costs. The primary objective of the Inspection Service's contract audit program is to provide independent audit assistance and maintain a system of checks and balances to protect the Postal Service from fraudulent schemes.



The Postal Service made great strides in its efforts to make purchasing postal products and services easier for customers. The installation of self-service stamp vending machines at the Washington, DC Metro subway line is an example of this "service first" attitude.



To help keep postal rates below inflation, the Postal Service is continuing to automate. An average of three pieces of automated equipment per day were accepted for deployment in Fiscal Year 1989.



Rates Below Inflation

The goal of achieving reasonable rates below inflation is critical to the survival and success of the Postal Service. Individual mailers, who spend about a dollar a week on postage, are generally satisfied with present rates and service. Business mailers, however, have different opinions. Many seek increased consistency of service and are concerned about the implications of the size and frequency of future rate increases.

Already the Postal Service is seeing increased competition for its "bread-and-butter" business — the delivery of hard-copy communications — from private alternative delivery firms, FAX machines and other emerging electronic technology. Clearly, business customers are concerned about the ability of the Postal Service to moderate and control costs and rates. The Postal Service's best answer to these threats is to restrain future rate increases.

Bringing postal costs under control depends on the Postal Service's ability to capture productivity gains. Increasing revenue and the overall contribution of postal products and services while restraining growth in average cost per workhour also are key strategies for restraining rates.

Investing in the Future with Automation. The Postal Service faces the monumental task of retooling without the luxury of shutting down the operation. The Postal Service must automate while coping with growing demands on collection, processing and delivery operations. To ensure that the Postal Service has the capacity and capability to move the mail efficiently, it plans to invest nearly \$13 billion in automation, facilities, vehicles and other equipment over the next five years. About \$5.3 billion is expected to be invested for automation and mechanization.

The Postal Service's Corporate Automation Plan is an outgrowth of a commitment to barcoding and is the principal road map for future automation. Implementing the plan will result in the barcoding of virtually all mail by 1995.

Implementing the Corporate Automation Plan is a major basis for postal productivity improvements, an area that promises big payoffs in the years ahead. The return from investment in automation has the potential to allow the Postal Service to avoid adding about 100,000 workyears by the end of 1995.

To achieve its Corporate Automation Plan, the Postal Service has developed strategies for increasing customer participation, improving addressing and readability, pricing strategically, defining internal equipment needs, and capturing savings from a bar-coded mainstream.

Automation Plan for Business Mailers Introduced. To guide customers in their internal planning for postal automation, the Postal Service introduced its *Automation Plan for Business Mailers* in October 1989.

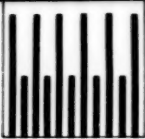
The purpose of this document is to explain postal plans relevant to various classes and types of mail, and to put key customer events into perspective by explaining how they fit into the Postal Service's Corporate Automation Plan.

By working with and listening to the mailing industry, the Postal Service is trying to communicate to customers its ongoing commitment to automation and barcoding.

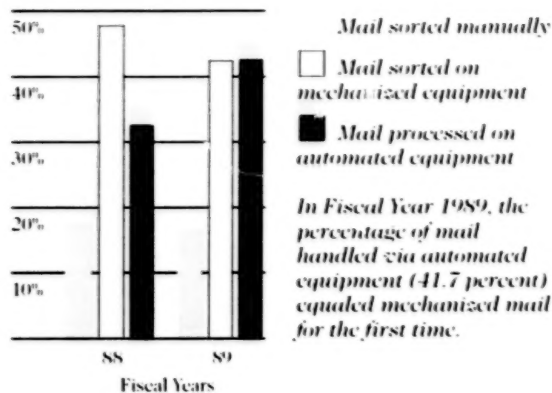
Local Innovation Is Common Thread in Automation Success Stories. Postal managers around the country are meeting the challenge of managing automation with a wide range of innovative approaches.

Each successful site is finding additional ways to make automation work, but there are a few common threads. One key to success is the teamwork that goes into planning for automation implementation by committed managers, postmasters and far-sighted local union officials:

By working with and listening to the mailing industry, the Postal Service is trying to communicate to customers its ongoing commitment to automation and barcoding.



Comparison of Letter Processing Mix



■ The Syracuse (NY) Management Sectional Center threw the switch from single-line to multiline technology in February 1989, cutting its budget by 1.1 percent, absorbing 50 mail processing positions through attrition (saving nearly 40,000 workhours in Fiscal Year 1989), increasing its workload by 4.8 percent and raising its mail processing productivity by 5.5 percent. Employee buy-in and support from the president of the American Postal Workers Union local was pivotal to this success.

■ Dallas Division managers and local APWU officials visited associate offices to recruit volunteers for a temporary automated mail processing facility in Plano, TX. Staffed by some 150 employees working two tours, job-related decisions in Plano are made collectively, most activities function with little or no supervision and the few managers there are considered coaches. Despite serious space and facility shortages caused by capital budget cutbacks, automation has led to the elimination of some 350 positions through attrition. As a result, the Dallas Division used 407,000 less workhours in city operations than in the previous year while at the same time absorbing five percent volume growth.

■ The San Jose Division hasn't hired a career clerk in more than a year, and has reduced more than 150 positions by attrition in the process because of automation. Bar code sorting to delivery sequence will help reduce letter carriers' in-office time from 47 percent to 20 percent of their shifts.

New Technology Will Maximize Automation Savings. Postal automation depends on the use of bar code sorters, multiline optical character readers and remote video encoding. Multiline optical character readers read typewritten addresses and apply ZIP + 4 Codes to letter mail. Remote video encoding is a system being developed which will apply bar codes to handwritten and other non-OCR readable mail. Once letter mail has received a bar code, it can then be processed on bar code sorters which sort the mail (at speeds up to 35,000 pieces per hour) based on the information supplied by the bar code printed on the envelope.

A prototype of technology which will lead to the production of a wide area bar code reader, and allow mailers more flexibility in the placement of the bar code on the face of the envelope, was developed in Fiscal Year 1989. The flexibility of the wide area bar code reader will make it much easier for mailers to bar code their mail. These new wide area bar code readers are slated to begin deployment in 1991.

Phase II of the optical character reader conversion program was completed in Fiscal Year 1989. This conversion included the upgrading of 406 single-line optical character readers to multiline capability. In June 1989, a production contract for 346 of the next generation of multiline optical character readers was awarded. (Installation will begin in September 1990.)

Three companies are competing to develop new remote video encoding systems. Testing of these prototype systems was completed in October 1989 at the Postal Service's Engineering and Development Center in Merrifield, Virginia.

As part of its quality assurance program to improve the reliability and performance of automated equipment, the Postal Service tested and accepted more than 1,000 major pieces of automated equipment (an average of about three per day) worth more than \$300 million in Fiscal Year 1989.



Some 18,000 Long-Life Vehicles worth more than \$200 million also underwent this quality assurance scrutiny. (About 37,000 Long-Life Vehicles were deployed by the end of Fiscal Year 1989.) With their improved maintainability, better fuel efficiency and more than double the payload of previous postal vehicles, Long-Life Vehicles are making significant contributions to improved delivery efficiency.

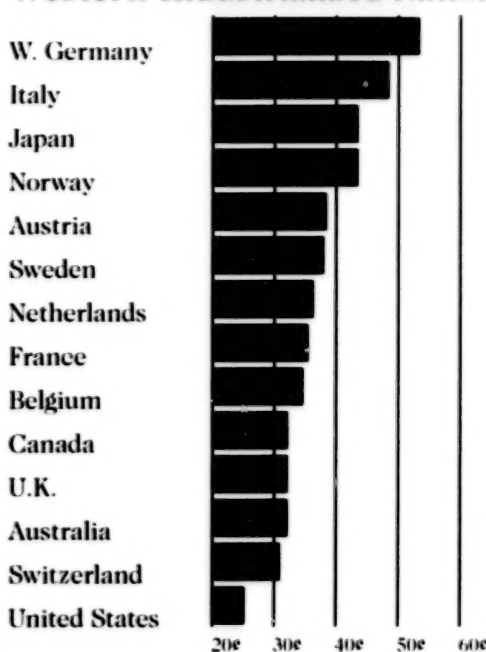
Increased Revenue Contribution Established as Critical Goal. In addition to productivity gains achieved from automation, the Postal Service is looking at ways to increase revenue contribution to overhead.

To support these efforts, an expedited market study, begun in Fiscal Year 1988, continued during Fiscal Year 1989. The study is designed to measure the size of the one- to three-day expedited delivery market and to identify user profiles, their needs, and their perceptions of the Postal Service's Express Mail and Priority Mail services and their competitors. Another purpose of the study is to determine the demand for a proposed exact two-day service to be provided by the Postal Service. The study will be completed in Fiscal Year 1990.

A study on the preferred methods for purchasing and paying for postage stamps also was completed during 1989. Key findings were that households show a strong interest in retail stores as an alternative to post offices for buying stamps. Among non-households, opportunities exist to promote stamp distribution channels that allow payment by check, delivery to the customer, and the marketing of \$10, \$15, and \$20 booklets of stamps, especially to light-volume mailers.

Other market research activities initiated or completed during Fiscal Year 1989 included: a study of the media needs of advertisers and their perceptions of the third-class mail medium, a profile of sales conference attendees, a study of the possible impact of charging fees for certain address information services, a review of customer perceptions of the Postal Service's International Surface Airlift (ISAL) service and competitive services, and a study to evaluate potential subjects for postage stamps.

First-Class Mail Costs from Western Industrialized Nations



U.S. First-Class Mail rates remained among the world's best postal bargains in Fiscal Year 1989. U.S. postal rates were about half that charged by Japan, Italy and West Germany.

Sales Conference Management Program Aids Customers. The Postal Service Sales Conference Management Program provides business customers with information about new and existing postal services, products, and rates. In addition, these programs provide the Postal Service with an avenue for valuable customer feedback.

During 1989, regional Postal Forums were held in Atlanta, Las Vegas, Chicago, New York, and Pittsburgh. The programs continued the theme of "Partnership for Progress" and were presented to a total of 5,830 customers. This represents a 32.5 percent increase over the 1987 Regional Forum attendance figures.



The Postal Service continued its nighttime network for transportation of Express Mail and Priority Mail in Fiscal Year 1989. A new contract was competitively awarded in July 1989 to Air Train, Inc. (subsequently renamed Emery Worldwide Airline, Inc.), which uses an operations hub in Indianapolis. Since September 1989, on-time performance there has exceeded 99 percent. In October 1989, San Juan, PR, was added to the nighttime service, extending the hub network to 31 major metropolitan markets.



The Mailers' Technical Advisory Committee (MTAC) and the Postal Customer Councils (PCCs) support these efforts, and the Association Conference Program supports the major mailing industry organizations and associations with speakers and panelists for their national annual conferences.

Account Management and Market Information System Tested. An Account Management Information System was successfully pilot tested at nine sites in Fiscal Year 1989. National implementation will begin in early Fiscal Year 1990. Nationwide customer sales information on the Postal Service's large customers will form a national data base which will enable the Postal Service to better manage sales activities and develop marketing strategies.

A business customer data base containing mailing addresses, telephone numbers, standard industrial codes, sales revenue and company executive names was used throughout the year for targeted direct mail campaigns, telemarketing efforts, research, and the establishment of sales territories.

Advertising and Promotion Produce Results. During Fiscal Year 1989, the major advertising campaigns included the promotion of products and services, Express Mail, automation, and philately. A major thrust of Postal Service advertising during the year was the highly successful "We Deliver" theme. This theme was first presented in a 1988 network television products and services promotion. Immediately following the Products and Services campaign was the Express Mail "We Deliver" promotion — the largest single promotion ever for Express Mail. Sales increases were impressive with Express Mail Next Day volume increasing 18.9 percent over 1988.

Promotion of automation started in January 1989 under the umbrella of "Complete Addressing" and using the theme "We Deliver."

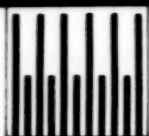
Express Mail Service Continues Volume, Revenue Comeback. The \$6 billion domestic overnight delivery market — the market in which Express Mail service operates — is where the Postal Service faces some of its toughest competition. Small and medium-sized companies are the largest market

segment. Individual consumers with an occasional need for expedited delivery also frequently use Express Mail service, as do some Fortune 500 companies with special needs.

Volume growth increased 17 percent and revenue was up nine percent in Fiscal Year 1989, (volume was nearly triple the growth rate for Fiscal Year 1988). This increase was due to the popularity of the \$8.75 letter rate, reliable overnight and morning delivery networks and the convenience of 26,000 post offices, 16,000 collection boxes and 267,000 delivery and collection employees accepting shipments.

Express Mail International Service Volume Increases Almost 50 Percent. The Postal Service introduced a new half-pound letter rate for Express Mail International Service in April 1989, reducing the price from \$18 to \$10.75 for packages eight ounces or less. In a significant new marketing direction, the new rate was discounted to \$8.75 for the first two months. This new pricing resulted in a nearly 50 percent volume increase and a 17 percent revenue gain.

In Fiscal Year 1989, Costa Rica became the 100th country to join the Express Mail International Service network. This represents the addition of 12 more nations from the previous year. Also enhancing service levels for U.S. Postal Service customers was the addition of more designated locations for the receipt of Express Mail International Service dispatches by postal administrations in 12 nations.



Culminating five years of planning in Fiscal Year 1989, the Postal Service hosted the Universal Postal Union Congress in Washington, DC for five weeks in November and December 1989. More than 1,000 delegates from 159 nations attended the Congress. WORLD STAMP EXPO '89, the first international stamp exposition ever sponsored by the Postal Service, ran concurrently with the UPU Congress. Sales from WORLD STAMP EXPO '89 and the stamps issued there will recover the Postal Service's costs for hosting the Congress.



The Postal Service signed a Memorandum of Cooperation in November 1989 with UNIPOST Corp. to improve all aspects of performance of international postal services. UNIPOST, which is based in Brussels, is a cooperative, commercial effort of 21 postal administrations, including 16 from European countries, Canada, Australia, New Zealand, Japan and the United States.

By signing the Memorandum, the Postal Service agreed to take an aggressive approach toward gaining sales from major, multinational customers, provide a level of service for international postal services comparable to that provided for domestic services and begin a program of action to improve quality of service among all members.

United States Hosts Universal Postal Union Congress. Signs New Terminal Dues Agreement. Concluding months of continual planning and preparation during Fiscal Year 1989, the 20th Universal Postal Union Congress was hosted by the Postal Service in Washington, DC for five weeks in November and December 1989. More than 1,000 delegates from 159 nations participated in the Congress, which was held in the United States for the first time in nearly a century.

Among the Congress' major accomplishments was a restructuring of terminal dues structure and rates, and the development of significant mail security incentives. The U.S. Postal Service was selected to chair the Executive Council of the Universal Postal Union from 1990-1994.

Assistant Postmaster General Thomas E. Leavey will serve as chairman of the Executive Council, which carries on the work of the Universal Postal Union between Congresses.

Terminal dues — the payments nations make to compensate each other for imbalances in their volumes of incoming and outgoing mail — were restructured to provide for separate rates per kilogram for letters and printed matter in the world's heaviest mail flows. Under this system, terminal dues will be higher for the letter category, reflecting the significantly greater costs of handling these items, and lower for printed matter. This should benefit international mailers by allowing the U.S. Postal Service to moderate future international postage rate increases.

WORLD STAMP EXPO '89, the first international stamp exposition ever sponsored by the U.S. Postal Service, ran concurrently with the UPU Congress. Eleven U.S. stamps and stationery products and 17 foreign stamps were issued during the 14-day exposition. Revenue generated from WORLD STAMP EXPO '89 and the nationwide sales of stamps and products issued there will recover the Postal Service's costs of hosting the UPU Congress.

U.S. Postal Service Becomes Corporate Sponsor of 1992 Olympic Games. In November 1989, the Postal Service announced that it had acquired rights to become a worldwide sponsor of the 1992 Winter and Summer Olympic Games to be held in Albertville, France and Barcelona, Spain.

The Postal Service is sharing the cost of worldwide sponsorship with more than 20 participating postal administrations, each of which will serve as the "Official Expedited and Package Courier" for the 1992 Olympic Games within their own country. (Other worldwide sponsors include firms such as Coca-Cola, Eastman Kodak, VISA and 3M.)

Olympic sponsorship is expected to offer opportunities for the sale of philatelic products with Olympic themes, increased use of postal services (especially expedited and parcel services) and the sale of licensing rights for Olympic-related products bearing the postal logo.

One visible aspect of this sponsorship is that the Postal Service is authorized to place the interlocking Olympic rings on postal aircraft, delivery vehicles, collection boxes and postal facilities.



Stamp Consignment Continues to Grow. Revenue from stamp consignment at some 25,000 retail outlets throughout the country more than doubled in Fiscal Year 1989 to more than \$300 million.

The stamp consignment program provides for the sale of stamps at no more than face value by private retailers, and offers postal customers a convenient, cost-effective alternative to postal window service.

Pilot Testing for FAX Machines in Postal Lobbies Begins. A one-year pilot program to test the use of self-service, credit card-operated public facsimile (FAX) machines in 54 postal lobbies in the Northeast Region began in November 1989. Post offices in the New York, Queens, Long Island, Providence and Boston Divisions will initially serve as pilot FAX sites, but eventually 263 postal lobbies nationwide will participate in the test. If the pilot proves successful, this program could be expanded to more than 8,000 post offices throughout the country.

This pilot program also includes a special "mailbox" retention feature that allows recipients to conveniently retrieve a document at a later time by keying an access code into the machine.

Customers also can use these FAX machines to transmit a document to one of INTELPOST's gateway cities for further transmission to foreign destinations, where the hard copy is then delivered. INTELPOST service offers fast international mail service, providing customers with same-day and next-day delivery of facsimile documents. Thirty-nine nations, including the Soviet Union, belong to the INTELPOST network.

Innovative Marketing, Creative Products Boost Philatelic Contribution. In Fiscal Year 1989, the Postal Service introduced new philatelic products designed to enhance philatelic revenue and interest casual and new stamp collectors. These products included:

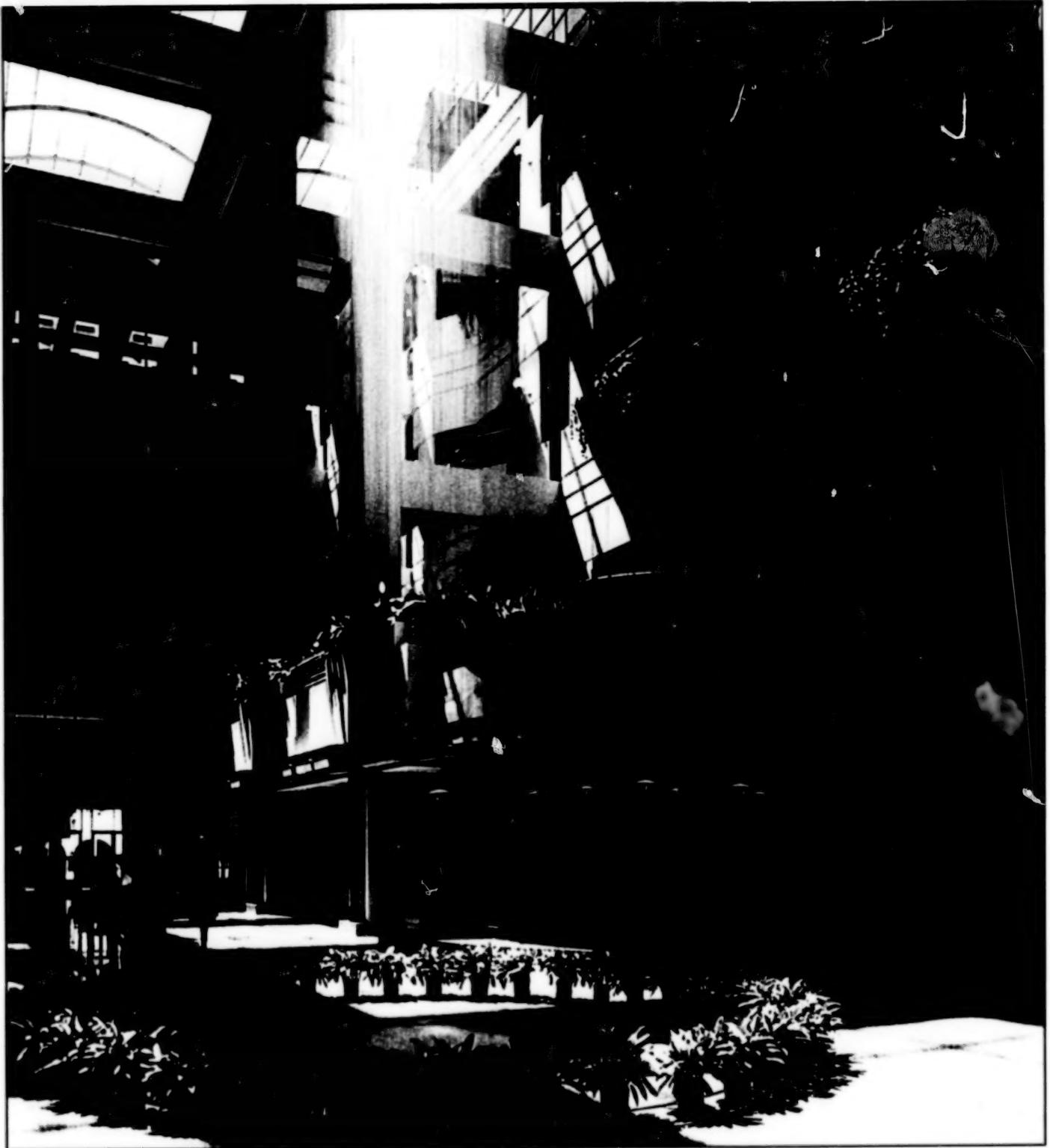
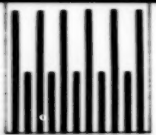
- Silver-plated holiday ornaments crowned with the 1989 Christmas stamps;
- "Stampin', the Lively Board Game of Stamp Acquisition," where players can "wheel-and-deal" to acquire sets of cards bearing recent stamp designs; and

- "The Legends of Baseball Scrapbook and Stamp Album," with tales, photographs, stamps and fact-packed cards of Baseball Hall of Famers Lou Gehrig, Jackie Robinson, Babe Ruth and Roberto Clemente.

The Postal Service also attracted collectors with its first marketing venture with a private corporation. MCA Home Video, producer of the videocassette version of "The Land Before Time," an animated movie about the adventures of friendly dinosaurs, is working to promote the Prehistoric Animal stamps and the video. (The Prehistoric Animal stamps keyed National Stamp Collecting Month in October 1989.)

The first peel-and-stick postage stamps issued by the Postal Service since 1974 began market testing in 15 cities in November 1989. Self-adhesive stamps do not have to be torn from a pane or coil, or licked for affixing to an envelope. In addition, these stamps are designed not to stick together under high humidity conditions and their adhesive produces a superior bond. These stamps are sold at a premium slightly above the First-Class Mail rate.

Net philatelic revenue from 55 stamp and stationery items amounted to \$147 million in Fiscal Year 1989.



Construction of Phase II of the Rincon Center project in San Francisco was completed last year, which included a 14,000 square foot postal facility, twin apartment towers and 250,000 square feet of office and retail space. In another innovative facilities initiative, three photovoltaic demonstration projects were completed in Fiscal Year 1989 in San Juan, PR, El Paso, TX and Rancho Mirage, CA that converted sunlight directly to electricity for heating, cooling and lights. The Postal Service received \$62 million from income generated by the subleasing and out leasing of excess space, sale of excess real estate and the redevelopment of underutilized postal properties in Fiscal Year 1989.



Gaining commitment of employees depends on preparing them for work. During Fiscal Year 1989, a new Technical Training Center in Norman, OK opened and trained more than 18,000 students. To promote professionalism at postal retail counters, major changes were made to training programs for window clerks consisting of 80 hours of classroom simulation and 40 hours on-the-job training.

Employee Commitment

The Postal Service must make fundamental changes in the way it utilizes its most important resources — its employees. The demands of the 1990s require these changes to be made.

After more than two centuries of highly structured management, the Postal Service is welcoming a gradual change in its corporate culture. Today, increasing numbers of postal employees feel empowered to go the extra mile to serve customers or to initiate cost-effective changes. In Fiscal Year 1989, nearly 50,000 postal employees submitted suggestions for improving operations. Almost 13,000, or 26 percent of those submitted, were accepted and resulted in cost savings of \$5.5 million last year.

Other examples of employees exercising this empowerment abound. During Fiscal Year 1989, advanced-step grievances were reduced, employee involvement was increased, and management by participation was formalized as an objective.

Step 3 Grievances Reduced 53 Percent. Postal management and employee unions worked together to improve the work environment by dramatically reducing grievance activity. This concerted effort led to a 53 percent decline in Step 3 grievances (those not resolved locally and appealed to the regional level). In the Southern Region alone, a 71 percent reduction was achieved. Grievances appealed to the national level dropped 30 percent.

These reductions were not the result of unilateral actions by the Postal Service, but reflected the cooperative efforts of employee unions. The National Association of Letter Carriers saw its grievances drop by 66 percent from the previous year; the American Postal Workers Union's grievance appeal rate was down 52 percent; the National Rural Letter Carriers' Association's appeal rate declined 43 percent; and the Mail Handlers' appeal rate was down 31 percent.

Postal management and employee unions now engage in a variety of alternative resolution processes. The names are different for

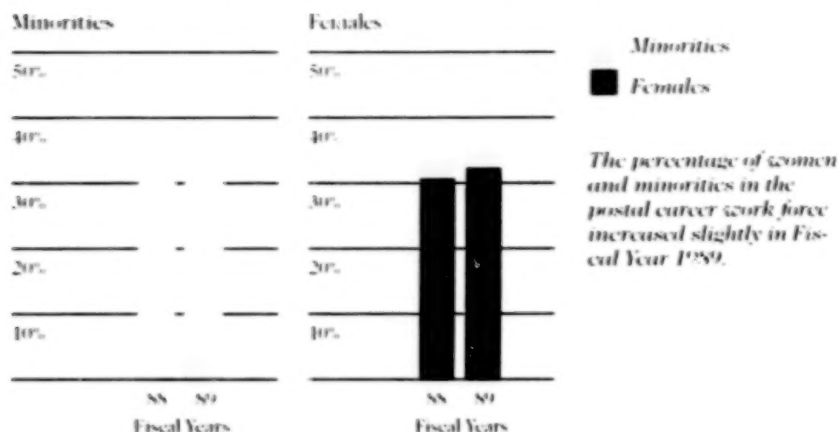
each union, but the idea is the same — trying to fix the problem, rather than trying to fix the blame. Instead of pointing fingers, postal managers and employees are beginning to join hands and commit themselves to iron out workplace disagreements at the lowest possible level.

An example of this new labor relations climate is the quarterly meetings held in the Central Region among Regional Postmaster General Jerry K. Lee and his senior staff and their union and management association counterparts. In these meetings, the participants exchange ideas and share performance information. In fact, state and national union and management association officers are invited to participate in all Postal Career Executive Service meetings conducted by the Central Region.

EI/QWL Focuses on Developing Participative Workplace Environment. Fiscal Year 1989 marked the seventh year since the Employee Involvement Quality of Work Life (EI QWL) concept was introduced in the Postal Service. EI QWL efforts are focused on developing a participative workplace environment — one that values the contribution of all employees and instills a sense of responsibility and accountability for the goals of the organization. With continued support from postal management and the three participating unions (National Association of Letter Carriers, National Rural Letter Carriers' Association and the Mail Handlers), more than 6,500 quality circles and workteams addressed a myriad of issues from enhanced customer services to self-managed carrier units.

The National Joint Steering Committees were involved in many substantive organizational issues, such as conducting a cost analysis of rural letter carriers performing mail counts, implementing segmentation and contributing to automation planning. Field EI QWL quality circles and workteams also made major contributions to the overall effectiveness of the organization, including:

Representation of Minorities and Females in Total Work Force, Fiscal Years 1988-1989



■ At the Heritage Station in Schenectady, NY, a self-managed workteam adjusted routes, coordinated annual leave usage and measured and recorded mail volume. The results are eye-opening. Overtime has declined 77 percent, sick leave is down 59 percent, deliveries per hour have increased 18 percent and delivery productivity is up 17 percent. (A similar self-management experiment by city carriers in Jackson, MN, bore comparable productivity savings and sick leave cost avoidances.)

■ In High Point, NC, service quality was of concern to one EI QWL team. A "Quarter Back Program" was recommended and implemented. Letter Carriers on 23 different routes personally pledged to give customers a money back guarantee on delivery — if a letter is misdelivered, the carrier pays the customer 25 cents.

Since the 1988 Christmas season, these High Point carriers have delivered nearly 10 million pieces of mail and incurred only \$19 in out-of-pocket expenses because of misdeliveries. The program has begun to spread to other post offices.

■ At the New Jersey Bulk Mail Center, a quality circle designed a "jam-breaker" platform that permits maintenance personnel to access mail jams on inbound conveyor belts quickly and safely. As a result of this innovation, an annual cost savings of \$50,000 was realized.

Management by Participation Begins. In February 1989, the Postmaster General and the presidents of the National Association of Postal Supervisors, National Association of Postmasters of the United States and the National League of Postmasters formally committed to a new process: Management by Participation.

Management by Participation is a process designed to improve communications, working relationships and trust among supervisors, postmasters and their managers.

Several programs already have begun under Management by Participation aegis. "Peer Review" is a process designed to resolve differences in the workplace over issues like performance evaluations and discipline. During this dispute resolution process, a panel of management representatives and peers convenes to evaluate disputes and render a final decision which is binding on the parties.

Through "Subordinate Feedback," postal managers in the Minneapolis, Providence, Omaha and Hartford Divisions receive direct input on their performance from subordinates.



During Fiscal Year 1989, Postmaster General Anthony M. Frank (right) met his commitment to speak at every management association and employee labor union national convention, including the National Association of Letter Carriers' Centennial Celebration where he appeared with NALC President Vincent Sombrotto.

As part of a Northeast Region-sponsored pilot job sharing project, pairs of management employees in the Albany, Providence and Hartford Divisions voluntarily split one full-time position.

The New Orleans and Phoenix Divisions are pilot testing a four-day, 10 hour per shift workweek for supervisors to afford greater scheduling flexibility during peak volume hours.

Preemployment Drug Testing Study Correlates to Work Performance. The Postal Service is committed to provide a drug-free workplace for its employees. Applicant drug testing will be in place in all field divisions by early 1990.

In Fiscal Year 1989, the Postal Service initiated a drug test study for applicants at 21 sites across the country. More than 5,000 applicants were tested for evidence of illegal drug use. The interim results of the study showed a significant correlation between positive drug tests by applicants and two key

work performance measurements. After one year, the nine percent of the sample who tested positive for drugs were absent 59 percent more than those who tested negatively. Also, those who tested positively for drugs were involuntarily separated at a 47 percent higher rate.

Second Child Care Facility Opened. In July 1989, 24-hour child care became available to employees of the San Francisco Division at the Whitney Young Child Development Center. Housed in a modern facility with five large classrooms, the Center sponsors a wide range of recreational and vocational arts programs supervised by a staff of trained professionals. Currently, 50 children from ages 2 to 12 are enrolled in the program.

Like the Postal Service's first child care test site, the "Little Eagles Child Care Center" in Syracuse, NY, the San Francisco test is being monitored by the Postal Service's National Child Care Task Force.

Training Commitment Remains Strong.

Postal employees received 12.8 million hours of training in Fiscal Year 1989.

The Postal Service revamped its orientation process for training and evaluating new employees, introducing a New Employee Training course. This three-tiered training is spread over new employees' 90-day probationary period. A New Employee Supervisor training course also was developed in Fiscal Year 1989. This eight-hour program emphasizes effective coaching techniques and measurable goal setting to supervisors responsible for evaluating new employees.

A new Technical Training Center in Norman, OK opened last year, and trained 18,400 students for 194,000 workdays on high technology postal systems, facilities, vehicles and equipment. Some 25,000 managers, supervisors and specialists also received management training at the William F. Bolger Management Academy in Potomac, MD in Fiscal Year 1989.

More than 3,500 students participated in six technical courses and Human Resource Information System training sessions transmitted via satellite to local sites in Fiscal Year 1989. A typical two-week teletraining course saved an estimated \$1,100 per student in travel-related costs. Plans are underway to expand this cost-effective training method to remote sites within each of the 73 field divisions.

A new program, *Employee Education Enhances Customer Satisfaction*, designed to educate customer contact employees about effective customer relations and how each individual's performance and behavior impacts the way the Postal Service is viewed, won first place for Consumer Service Training in the 13th Annual Society of Consumer Affairs Professionals Award Program.



Employee commitment was so important to the Postal Service in Fiscal Year 1989 that the discretionary effort exhibited by our employees on a daily basis was a central theme in our "We Deliver" ad campaign.

Governors of the Postal Service



*Left to right, seated: John L. Ryan, Norma Pace,
Crocker Nevins, Robert Setrakian and Tirso del Junco, M.D.
Standing: Bert H. Mackie, Ira D. Hall,
Susan E. Alvarado and John N. Griesemer.*

Board of Governors

Robert Setrakian, Chairman of the Board of Governors, is a San Francisco businessman. He was appointed to the Board in December 1985 for a term expiring December 8, 1993. He previously served as a Commissioner of the Federal Maritime Commission from 1983 to 1985.

John L. Ryan, Vice Chairman of the Board, became a Governor in May 1983 for a term that expired December 8, 1989. (As provided by law, he will continue to serve on the Board until December 8, 1990, or until his successor is confirmed by the Senate.) He retired as Vice President of METPRO Corporation and General Manager of the Dean Pump Division in Indianapolis, IN, in January 1987. He was elected Vice Chairman of the Board in June 1986.

Crocker Nevin, Chairman of the Audit Committee of the Board, became a Governor in August 1986 and will serve the remainder of a term expiring December 8, 1992. He previously served on the Board of Governors from 1971 to 1977. He has an extensive background in banking, finance and community service.

Susan E. Alvarado, President, The Alvarado Group, a Washington, DC government relations firm, was appointed in July 1988 to serve on the Board for a term expiring December 8, 1996. Formerly Assistant for Legislative Affairs to Vice President George Bush, she later served as Vice President for Congressional Liaison for the National Association of Broadcasters.

Tirso del Junco, M.D., a Los Angeles surgeon and entrepreneur, was appointed to the Board in July 1988 for a term expiring December 8, 1991. He founded and served as Chairman of the Board of the Los Angeles National Bank and now serves as a member of the Board of Regents of the University of California.

John N. Griesemer is President of the Griesemer Stone Company and General Warehouse Corporation in Springfield, MO. He became a Governor in December 1984 for a term which expired December 1986. He was reappointed, without a break in service, to a full term, expiring December 8, 1995. He was elected Chairman of the Board in January 1987 and served two years as Chairman.

Ira D. Hall, Assistant Treasurer of the International Business Machines Corporation, was appointed to serve on the Board in November 1987. His term will expire December 8, 1990. Prior to joining IBM, he was a Senior Vice President of the New York Investment firm of L.F. Rothschild, Unterberg, Towbin.

Bert H. Mackie, Executive Vice President of the Security National Bank of Enid, OK, was appointed to serve on the Board on December 9, 1988. His term will expire December 8, 1997. He is an ardent supporter of quality education and is a trustee of the Oklahoma Foundation for Excellence.

Norma Pace, an economist and consultant to several top corporations in the nation, was appointed to serve on the Board in May 1987 for a term expiring December 8, 1994. Mrs. Pace is the author of numerous articles for business publications on forecasting and the use of forecasting in business planning.

Anthony M. Frank was appointed the nation's 69th Postmaster General by the Board on February 2, 1988, taking office March 1, 1988. Prior to joining the Postal Service, he was Chairman of the Board and Chief Executive Officer of First Nationwide Bank, a wholly-owned subsidiary of Ford Motor Co. and one of the nation's largest consumer banking operations.

Michael S. Coughlin was named Deputy Postmaster General by the Board on January 5, 1987 after holding a series of top-level postal management positions. Now the chief operating officer of the Postal Service, he entered it in 1967 as a management intern.

Officers of the U.S. Postal Service

Officers of the Postal Service are appointed by and serve at the pleasure of the Postmaster General, and are authorized to execute and fulfill the duties of their office according to law. In selecting them, the Postal Service places special trust and confidence in their integrity and ability.

U.S. Postal Service Organizational Chart

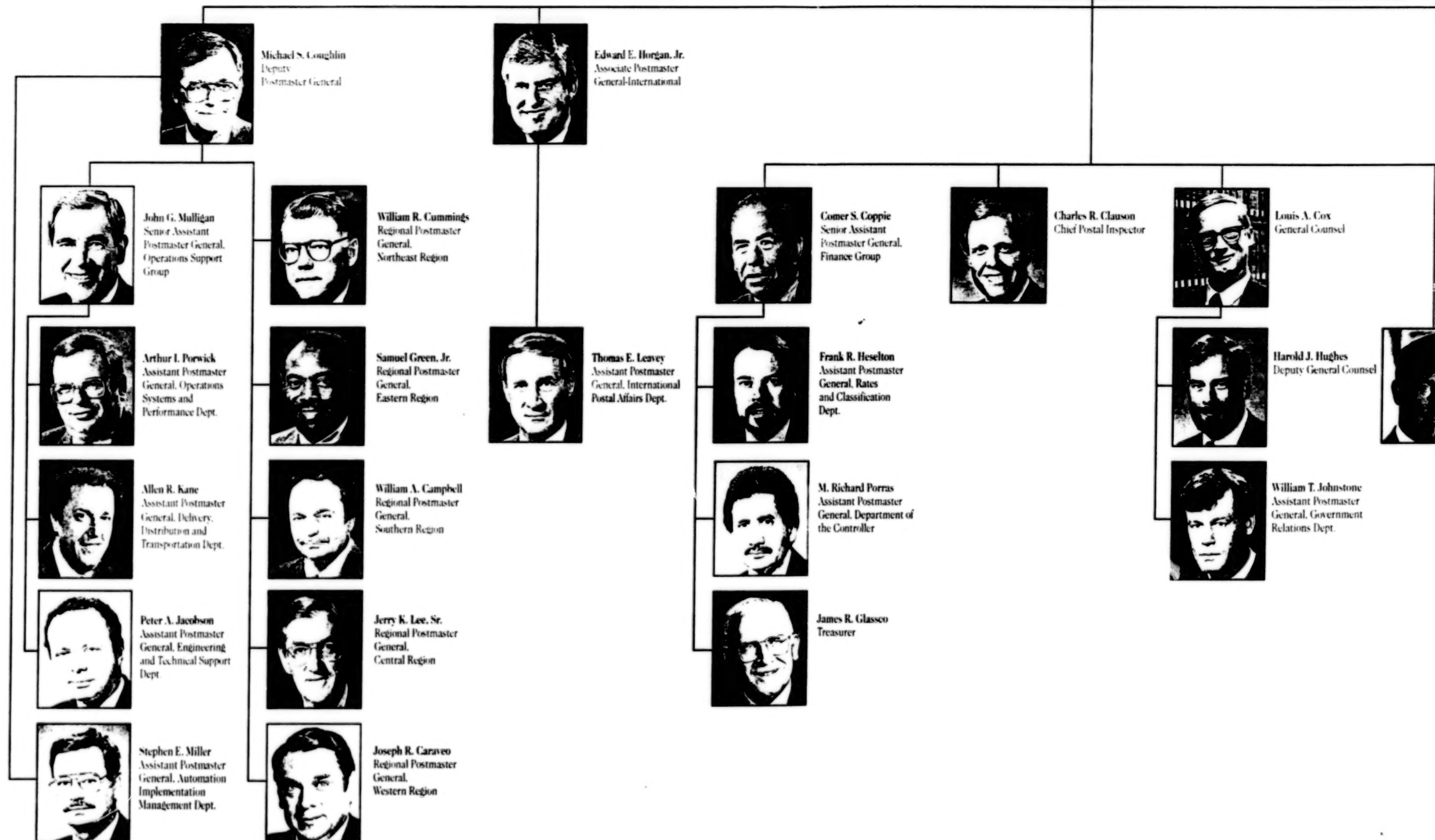
Annual Report of the Postmaster General
U.S. Postal Service Organizational Chart



Anthony M. Frank
Postmaster General



Michael S. Coughlin
Deputy Postmaster General



U.S. Postal Service Organizational Chart



Michael J. Slama
Executive Assistant to
The Postmaster General



Kenneth J. Hunter
Associate
Postmaster General



David H. Charters
Senior Assistant
Postmaster General,
Human Resources Group



Peter K. Eichhorn
Senior Assistant
Postmaster General,
Marketing and
Communications Group



Mitchell H. Gordon
Senior Assistant
Postmaster General,
Administrative Services
Group



Richard J. Strasser, Jr.
Assistant Postmaster
General, Planning Dept.



Joel S. Trosch
Assistant Postmaster
General, Employee
Relations Dept.



John R. Wargo
Assistant Postmaster
General, Marketing
Dept.



Ann McK. Robinson
Consumer Advocate



Stanley W. Smith
Assistant Postmaster
General, Facilities Dept.



Joseph J. Mahon, Jr.
Assistant Postmaster
General, Labor Relations
Dept.



Deborah K. Bowker
Assistant Postmaster
General,
Communications Dept.



Karen T. Uemoto
Assistant Postmaster
General, Technology
Resource Dept.



John J. Davin
Assistant Postmaster
General, Procurement
and Supply Dept.



Elwood A. Mosley
Assistant Postmaster
General, Training and
Development Dept.



Gordon C. Morison
Assistant Postmaster
General, Philatelic and
Retail Services Dept.



Richard D. Weirich
Assistant Postmaster
General, Information
Resource Management
Dept.



James A. Cohen
Judicial Officer

U.S. Postal Service Organizational Chart

Management Discussion and Analysis

Fiscal Year 1989 continued a period of financial transition for the Postal Service. Cost pressures from a number of extraordinary factors — some of which were beyond the direct control of the Postal Service — resulted in total expenses continuing to increase significantly.

Total revenue was lower than expected, but by less than one percent. Actual expenses were higher than estimated, but also by less than one percent. For the year, revenue was \$256 million under plan while expenses were \$245 million over plan. This resulted in a net income variance from plan of \$501 million. Lower than expected mail volume and lower than planned productivity were primary causes of this variance.

Total revenue for Fiscal Year 1989 amounted to \$38.9 billion, a \$3 billion increase over last year. Total expenses for the year were \$38.9 billion, a \$2.3 billion increase over the previous year. The components of this increase included \$1.9 billion in salaries and benefits, \$362 million in other operating expenses and additional interest expense of \$72 million.

Federal employee health benefit premiums, administered by the Office of Personnel Management, continued to be a serious problem in Fiscal Year 1989. The Postal Service's share of health benefits premium for current employees increased by 24 percent in January 1989. (A 31 percent increase in these premiums was incurred in January 1988 and a 25 percent increase was incurred in January 1987.) As a result, health benefit premiums for current employees have doubled in the past three years and cost the Postal Service almost \$1.8 billion in Fiscal Year 1989. The Postal Service is reevaluating its options relative to health benefits in light of a projected continuation of double-digit increases in federal health benefit premiums for the foreseeable future.

Differences in the method of funding the Federal Employees Retirement System (FERS) and the Civil Service Retirement System (CSRS) are responsible for built-in increases in retirement costs as the percent-

age of employees covered by FERS continues to grow. The higher priced contribution for FERS employees cost the Postal Service some \$900 million more in Fiscal Year 1989 than would have been incurred under the CSRS system. About 280,000, or nearly 40 percent of all career postal employees are now covered by FERS.

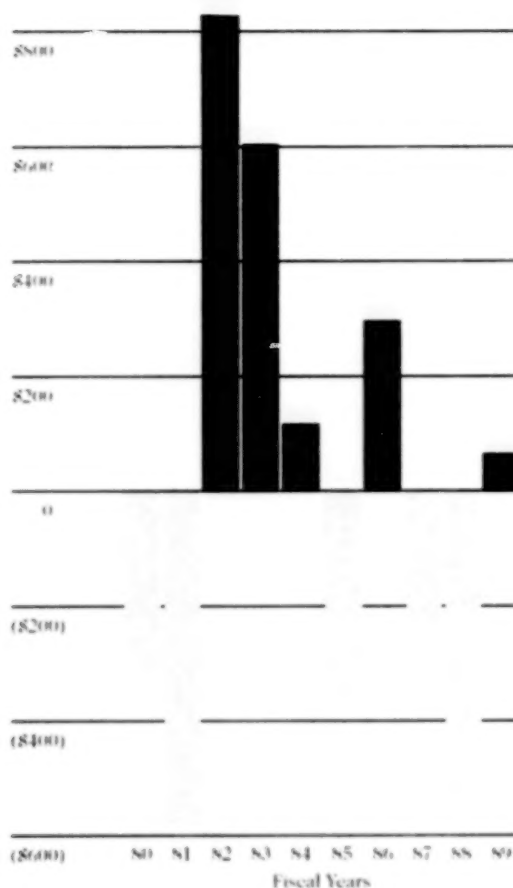
The Omnibus Budget Reconciliation Act of 1987 continued to affect postal finances in Fiscal Year 1989. (These Congressionally mandated payments were extraordinary requirements, made in addition to the Postal Service's regular health and retirement benefits.) The Postal Service was required to make a \$270 million payment to the Federal Employees Health Benefits Fund in Fiscal Year 1989. This was in addition to the payments of \$160 million to the Federal Employees Health Benefits Fund and \$350 million to the Civil Service Retirement System that the Postal Service made the previous year.

When the resources used by the Postal Service do not grow as fast as its workload, Postal Service productivity increases (and vice versa). Growth in workload arises both from growth in mail volume and from growth in the number of households and businesses to which mail must be delivered. In Fiscal Year 1989, the number of delivery points grew 1.6 percent. This increase was in line with previous years, but volume-related workload grew only 0.1 percent. (Volume grew 0.4 percent, but the growth was concentrated in relatively low work content subclasses of mail.) Allowing for the greater importance of volume-related workload, total Postal Service workload grew 0.4 percent, which was significantly less than planned.

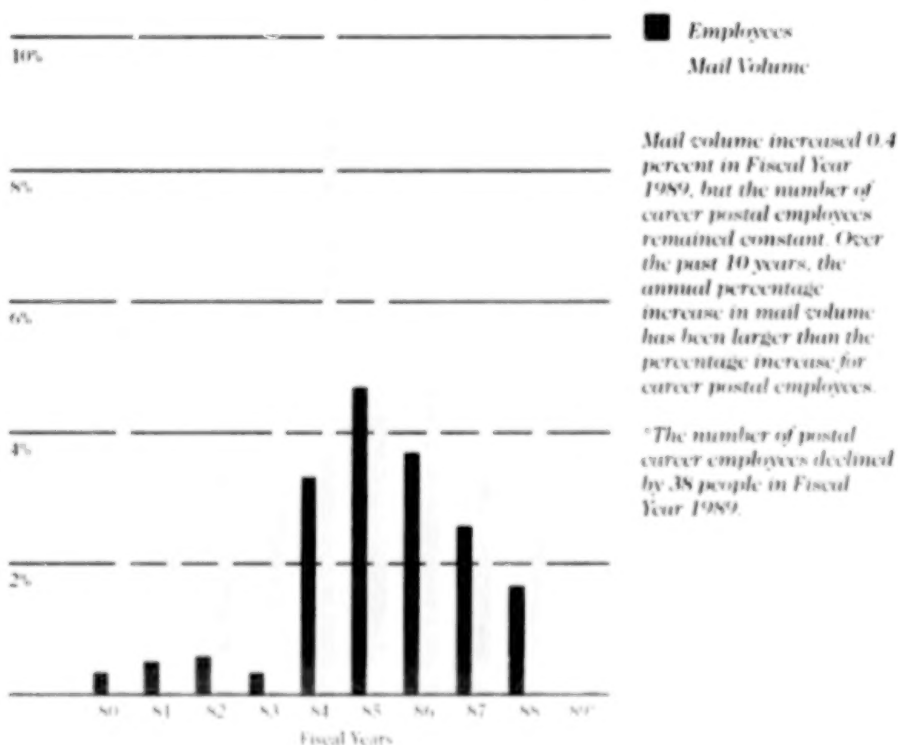
Postal Service resource usage is composed of labor, materials and capital, with labor by far the largest component. In Fiscal Year 1989, resource usage grew 1.2 percent, or 0.8 percent faster than workload. As a result, productivity declined 0.8 percent for the year.

Net Income (Loss) (dollars in millions)

The Postal Service is meeting its legal mandate to break even over time. In the past 10 years, the Postal Service has had five surpluses and five losses. Over that period, its revenue was within two-tenths of one percent of expenses.



Comparison of Annual Percentage Changes for Mail Volume and Postal Career Employees



Financial Statements

Balance Sheets

United States Postal Service	Sept. 30, 1989	Sept. 30, 1988
	<i>(dollars in thousands)</i>	
Assets		
Current assets		
Cash and cash equivalents	\$ 1,876,553	\$ 1,162,753
U.S. Government securities at amortized cost, which approximates market	2,827,181	2,784,432
Receivables		
Foreign countries	344,481	326,768
U.S. Government	139,889	226,780
Accrued interest	59,833	29,641
Other	59,528	61,650
	603,731	644,839
Less allowances	27,285	22,869
	576,446	621,970
Supplies, advances and prepayments	168,259	162,667
Total current assets	5,448,439	4,731,822
Other assets—Note 5	16,341	13,418
Property and equipment, at cost—Note 5		
Buildings	6,954,582	6,210,450
Equipment	4,656,713	4,081,902
Land	1,209,555	1,037,934
	12,820,850	11,330,286
Less allowances for depreciation	3,988,248	3,528,994
	8,832,602	7,801,292
Construction in progress	1,302,258	1,526,849
Leasehold improvements, net of amortization	201,144	208,886
	10,336,004	9,537,027
Deferred retirement costs—Note 4	20,971,164	20,389,995
	\$36,771,948	\$34,672,262

See notes to financial statements.

United States Postal Service

Sept. 30, 1989

Sept. 30, 1988

*(dollars in thousands)***Liabilities and (Net Capital Deficiency)**

Current liabilities

Compensation and employees' benefits	\$ 2,110,586	\$ 1,959,258
Estimated prepaid postage	1,252,000	1,196,000
Payables and accrued expenses		
Foreign countries	372,006	362,486
U.S. Government	280,886	241,977
Other	204,932	249,775
	857,824	854,238
Prepaid permit mail and box rentals	830,053	786,690
Outstanding postal money orders	544,203	436,183
Current portion of long-term debt	303,200	267,200
Total current liabilities	5,897,866	5,499,569
Long-term debt, less current portion—Note 5	6,173,062	5,612,704

Other liabilities

Amounts payable for retirement benefits—Note 4	20,359,305	19,740,843
Workers' compensation claims	3,745,000	3,367,000
Employees' accumulated leave	940,581	882,580
Other	57,763	30,000
	25,102,649	24,020,423

Commitments and contingencies—Notes 4, 6 and 7

(Net capital deficiency)

Capital contributions of the U.S. Government	3,036,586	3,038,500
Deficit from operations since commencement		
on July 1, 1971	(3,438,215)	(3,498,934)
Total (net capital deficiency)	(401,629)	(460,434)
	836,771,948	834,672,262

See notes to financial statements.

Statements of Operations and Changes In Equity

(Net Capital Deficiency)

United States Postal Service	Year Ended Sept. 30, 1989	Year Ended Sept. 30, 1988
	<i>(dollars in thousands)</i>	
Operating revenue—Note 2	838,415,092	835,552,753
Operating expenses		
Compensation and employees' benefits—Notes 3 and 4 . . .	32,368,364	30,478,649
Other	6,002,394	5,640,537
	38,370,758	36,119,186
Income (loss) from operations	44,334	(566,433)
Interest income	504,513	386,016
Interest expense	(488,128)	(416,493)
Net income (loss)	60,719	(596,910)
(Net capital deficiency) equity—beginning of year	(460,434)	138,227
Capital equipment transferred to U.S. Government	(1,914)	(1,751)
(Net capital deficiency)—end of year	(8 401,629)	(8 460,434)

See notes to financial statements.

Statements of Cash Flows

United States Postal Service	Year Ended Sept. 30, 1989	Year Ended Sept. 30, 1988
	<i>(dollars in thousands)</i>	
Cash flows from operating activities:		
Net income (loss)	\$ 60,719	(\$ 596,910)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	598,736	510,489
Increase in non-current workers' compensation claims	378,000	249,000
Increase in employees' accumulated leave	58,001	44,083
Changes in assets and liabilities:		
Increase (decrease) in accrued compensation and employees' benefits	151,328	(115,597)
Increase in outstanding postal money orders	108,020	45,220
Increase in estimated prepaid postage	56,000	112,000
Decrease (increase) in receivables	45,524	(41,948)
Increase in prepaid permit mail and box rentals	43,363	108,218
Decrease (increase) in retirement costs, net	37,293	(200,063)
Increase in other liabilities	27,763	10,000
Increase (decrease) in payables and accrued expenses	3,586	(227,404)
Increase in supplies, advances and prepayments	(5,592)	(21,216)
Net cash provided (used) by operating activities	1,562,741	(124,128)
Cash flows from investing activities:		
(Purchase) sale of U.S. Government securities, net	(42,749)	18,653
Purchase of property and equipment, net	(1,399,627)	(1,707,505)
Net cash used in investing activities	(1,442,376)	(1,688,852)
Cash flows from financing activities:		
Increase in long-term debt	900,000	1,414,000
(Increase) decrease in other assets	(2,923)	7,686
Payments on long-term obligations	(303,642)	(261,919)
Net cash provided by financing activities	593,435	1,159,767
Net increase (decrease) in cash and cash equivalents	713,800	(653,213)
Cash and cash equivalents at beginning of year	1,162,753	1,815,966
Cash and cash equivalents at end of year	81,876,553	81,162,753
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 544,888	\$ 451,674
Cash received during the year for interest	\$ 474,321	\$ 409,271

See notes to financial statements.

United States Postal Service Notes to Financial Statements

September 30, 1989 and 1988

1. Postal Reorganization and Accounting Policies

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

Cash Equivalents

—Cash equivalents include securities with maturities at purchase of 90 days or less.

Property and Equipment

—Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful lives. Repair and maintenance costs are expensed as incurred.

Estimated Prepaid Postage

—Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Workers' Compensation Claims

—Workers' compensation costs are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors.

Retirement Benefits

—Amounts payable for retirement benefits reflect the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the Fund) arising from increases in basic pay. Also included in this total is an

unfunded liability arising from the transfer of Civil Service Retirement System employees into the Federal Employees Retirement System (FERS). These liabilities are payable in equal amounts over a 30-year time period. Amounts applicable to operations of future years are charged to deferred retirement costs and are subsequently amortized through operating expenses.

Research and Development Costs

—Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to approximately \$61,000,000 in Fiscal Year 1989 and \$47,000,000 in Fiscal Year 1988.

Retiree Health Benefits

—Under Public Law 99-272, the Postal Service became responsible for paying the employer's share of health benefits for its career employees retiring on or after October 1, 1986. These costs totaled approximately \$100,000,000 in Fiscal Year 1989 and \$53,000,000 in Fiscal Year 1988. These costs are accounted for as incurred.

2. Revenue Forgone

Operating revenue includes reimbursement for revenue forgone. Revenue forgone results from charging lower rates for the mail categories which Congress has determined should be subsidized through tax dollars. Revenue forgone reimbursed to the Postal Service during Fiscal Years 1989 and 1988 amounted to \$436,417,000 and \$517,000,000, respectively.

3. The Omnibus Budget Reconciliation Act of 1987

The Omnibus Budget Reconciliation Act (OBRA) of 1987 required the Postal Service to make additional payments of \$350,000,000 to the Civil Service Retirement and Disability Fund and \$160,000,000 to the Federal Employee Health Benefits Fund during Fiscal Year 1988. For Fiscal

Year 1989, the Postal Service was required to pay an additional \$270,000,000 to the Federal Employee Health Benefits Fund. These amounts are included in expenses for compensation and employee benefits in the Statements of Operations and Changes in Equity (Net Capital Deficiency).

—The OBRA also limited capital investment commitments to \$1,995,000,000 for Fiscal Year 1989, and \$625,000,000 for Fiscal Year 1988, and required the Postal Service to reduce operating expenses by \$270,000,000 and \$160,000,000 in Fiscal Years 1989 and 1988, respectively.

—Additionally, the OBRA required a deposit of \$465,000,000 in an escrow account with the U.S. Treasury by October 31, 1988. The deposit reverted to the Postal Service on October 1, 1989, pursuant to the provisions of the OBRA.

4. Retirement Programs

Description of Plans and Contribution Rates

The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the Civil Service Retirement System (CSRS). CSRS provides a basic annuity and Medicare coverage.

—Employees hired between January 1, 1984 and January 1, 1987 were covered by the provisions of the Dual Civil Service Retirement Social Security System until January 1, 1987. Certain employees with prior government service continue to be covered by such provisions.

—From January 1, 1987, employees hired since January 1, 1984, except as noted above, are subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. In addition, employees hired prior to January 1, 1984 were able to elect participation in FERS during certain periods in Fiscal Years 1987 and 1988. FERS is a three-tier retirement system consisting of Social Security, a basic annuity plan and a thrift savings plan.

—The Postal Service is required to contribute a minimum of one percent per annum of the basic pay of FERS employees to the thrift savings plan. Contributions by FERS employees to the thrift savings plan are voluntary and are fully matched by the Postal Service up to 3 percent of basic pay and at a 50 percent rate between 3 percent and 5 percent of basic pay.

—The following table summarizes contribution rates for these retirement plans during Fiscal Years 1989 and 1988. Contributions for Social Security and Medicare are based upon gross Social Security wages. All other contributions are based on a percent of basic pay.

	Postal Service	Employees
CSRS		
<i>Contributions for:</i>		
Retirement and Disability Fund	7.00%	7.00%
Medicare	1.45%	1.45%
Thrift Savings Plan	—	0-5%
Dual CSRS/Social Security		
<i>Contributions for:</i>		
Retirement and Disability Fund	7.00%	0.94%
Social Security	7.51%	7.51%
Thrift Savings Plan	—	0-5%
FERS		
<i>Contributions for:</i>		
Basic Annuity Plan	12.86%	0.94%
Social Security	7.51%	7.51%
Thrift Savings Plan	1-5%	0-10%

—The following table summarizes the number of employees enrolled in each of the retirement plans at the end of Fiscal Years 1989 and 1988.

	1989	1988
CSRS	474,017	503,028
Dual CSRS Social Security	14,294	13,310
FERS	288,811	262,617

Unfunded Liability

—Unfunded liabilities of the FERS basic annuity plan, as determined by the Office of Personnel Management (OPM), are funded by the Postal Service through supplemental contributions over 30 years with interest. In Fiscal Year 1989, OPM determined the initial supplemental liability under FERS attributable to Postal Service employees at September 30, 1988 to be \$400,000,000. This liability is to be amortized over 30 years at 7 percent interest per annum. The first installment of \$32,235,000 was paid on September 30, 1989, leaving a year-end FERS unfunded liability balance of \$367,765,000.

—Under the Civil Service Retirement System, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the Fund attributable to Postal Service employee-management agreements that authorize increases in basic pay on which benefits payable from the Fund are computed. The estimated increase in the unfunded liability as determined by OPM is paid by the Postal Service in 30 equal annual installments with interest computed at 5 percent per annum. The first payment thereof is due at the end of the fiscal year in which an increase in the basic pay becomes effective.

—The increases in the unfunded liability for retirement benefits under the Civil Service Retirement System in Fiscal Years 1989 and 1988 were \$811,411,000 and \$2,677,343,000, respectively. The 1988 increase includes \$2,219,720,000 relating to the inclusion in basic pay of certain cost-of-living allowances (COLAs) under the provisions of the 1984 and 1987 employee-management agreements. As a result of the 1987 contract negotiations, additional COLA amounts will become part of basic pay in February 1991. Total increases in the annual expense that resulted from increases in basic pay were \$50,270,000 for Fiscal Year 1989 and \$165,871,000 (of which \$137,520,000 related to COLAs) for Fiscal Year 1988.

—The estimated future minimum payments required to fund amounts payable for CSRS and FERS retirement benefits on September 30, 1989, are as follows:

Fiscal Year	Amount
1990	\$ 1,649,747,000
1991	1,649,747,000
1992	1,649,747,000
1993	1,649,747,000
1994	1,649,747,000
Thereafter	27,270,937,000
	35,519,672,000
Less amounts representing interest and the portion classified as a current liability	15,160,367,000
	\$20,359,305,000

—Aggregate retirement expenses for Fiscal Years 1989 and 1988 were \$4,374,000,000 and \$4,133,000,000, respectively, including \$1,649,747,000 and \$1,568,204,000, respectively, attributable to amortization of deferred retirement costs and interest on the CSRS unfunded liability, and \$143,141,000 and \$106,660,000, respectively, for Postal Service contributions to the thrift savings plan. Also included in retirement expenses are special one-time payments to the Fund of \$270,000,000 and \$350,000,000 in Fiscal Years 1989 and 1988, respectively, pursuant to the requirements of the OBRA (See Note 3).

5. Long-Term Debt and Interest Costs

The Postal Reorganization Act authorizes the Postal Service to issue and sell obligations not to exceed \$10,000,000,000 outstanding at any one time. The net increase outstanding in any one year is limited to \$1,500,000,000 for capital improvements and \$500,000,000 for operating expenses. Long-term debt consists of the following:

	September 30	
	1989	1988
6-7 8% Postal Service Bonds, Series A, due February 1, 1997	\$ 250,000,000	\$ 250,000,000
<i>Notes payable to Federal Financing Bank:</i>		
8.075% payable \$32,000,000 each year to May 31, 2000	352,000,000	384,000,000
7.80% payable \$15,000,000 each year to May 31, 2001	180,000,000	195,000,000
10.475% payable \$38,800,000 each year to May 31, 2010	814,800,000	853,600,000
7.591% payable \$50,000,000 each year to May 31, 2011	1,100,000,000	1,150,000,000
8.474% payable \$30,000,000 each year to May 31, 2012	690,000,000	720,000,000
8.908% payable \$35,400,000 each year to May 31, 2012	814,200,000	849,600,000
9.074% payable \$60,000,000 each year to May 31, 2012	1,380,000,000	1,440,000,000
9.081% payable \$36,000,000 each year to May 31, 1996 \$12,000,000 due June 2, 1997	264,000,000	—
8.795% payable \$24,000,000 commencing on May 31, 1997 with 16 payments of \$36,000,000 due each succeeding year ending on May 31, 2013 with an average interest rate of 8.7572%	600,000,000	—
 Mortgage notes payable including interest of 4.75% to 12.5% maturing from Fiscal Years 1990 through 2004 secured by land, buildings and equipment with a carrying amount of \$132,000,000 (aggregate annual installments approximate \$6,000,000)	31,262,000	37,704,000
	6,476,262,000	5,879,904,000
Less current portion	303,200,000	267,200,000
	\$6,173,062,000	\$5,612,704,000

—The 6-7 8% Postal Service Bonds, Series A, were issued under a Trust Indenture dated February 1, 1972, and are secured by a first lien on the revenue, income, fees, rents, appropriations and other receipts of the Postal Service; the proceeds of all obligations issued by the Postal Service; and all sinking and improvement funds established pursuant to the Trust Indenture. On July 31 of each year, the Postal Service is required to deposit in a sinking and improvement fund the sum of \$10,000,000 either in cash or reacquired Series A Bonds. However, the Trust Indenture further provides that, at the option of the Postal Service, such sinking fund requirements may be applied to the payment of costs of capital additions or improvements to properties of the Postal Service. Since the commencement of the sinking fund in 1978, the Postal Service has applied \$110,000,000 to the construction of mail facilities. The balance in the sinking fund (\$10,000,000 in 1989 and \$5,890,000 in 1988) is classified with other assets in the accompanying balance sheets. The bonds are redeemable prior to maturity, at the option of the Postal Service, at the principal amount plus accrued interest.

At September 30, 1989, the future minimum rentals for all noncancellable leases approximate the following:

Year	Total
1990	\$ 382,000,000
1991	333,000,000
1992	271,000,000
1993	212,000,000
1994	166,000,000
Thereafter	531,000,000
	\$1,895,000,000

Most of these leases contain renewable options for periods ranging from three to twenty years. Certain noncancellable real estate leases have options to purchase the facilities at prices specified in the leases.

6. Commitments

At September 30, 1989, the estimated cost to complete approved Postal Service capital projects was approximately \$2,201,000,000.

—Total rental expense for the years ended September 30, 1989 and 1988 is summarized as follows:

	1989	1988
Noncancellable real estate leases including related taxes (1989, \$41,400,000; 1988, \$40,000,000)	\$456,500,000	\$433,700,000
Facilities leased from General Services Administration subject to 120-day notice of cancellation	35,900,000	39,700,000
Equipment and other short-term rentals	44,900,000	61,200,000
	\$537,300,000	\$534,600,000

7. Contingencies

Several equal employment opportunity, employee compensation and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages and suits and claims arising out of postal contracts.

—Several versions of legislative initiatives have also been proposed that would make the Postal Service responsible for cost of living allowances (COLAs) for new postal retirees according to length of time in Postal Service employment. The final form of this legislation has not yet been determined.

—In the opinion of management and General Counsel, adequate provision has been made for amounts which may become due under the suits, claims and proceedings discussed in the preceding paragraphs.

Report of Ernst & Young Independent Auditors

Board of Governors United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service (Postal Service) at September 30, 1989 and 1988, and the related statements of operations and changes in equity (net capital deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1989 and 1988, and the results of operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Young

Ernst & Young
Washington, DC

November 10, 1989

Financial History Summary

	1989	1988	1987	1986	1985
Statement of Operations					
	<i>(dollars in thousands)</i>				
Operating revenue	837,978,675	835,035,753	831,528,112	830,102,091	827,736,071
Public service appropriation . . .	0	0	0	0	0
Revenue forgone appropriation	436,417	517,000	650,000	715,836	969,620
Total operating revenue	38,415,092	35,552,753	32,178,112	30,817,927	28,705,691
Salaries and benefits	32,368,364	30,478,649	27,228,844	25,575,894	24,349,087
Other expenses	6,002,394	5,640,537	5,290,845	5,140,701	4,858,114
Total operating expenses	38,370,758	36,119,186	32,519,689	30,716,595	29,207,201
Operating income (loss)	44,334	(566,433)	(341,577)	101,332	(501,510)
Other income (loss)	16,385	(30,477)	118,891	203,276	250,030
Net income	\$ 60,719	(\$ 596,910)	(\$ 222,686)	\$ 304,608	(\$ 251,480)
Balance Sheet					
Assets					
Current assets	\$ 5,448,439	\$ 4,731,822	\$ 5,340,524	\$ 4,658,520	\$ 3,234,741
Property, plant and equipment, deferred retirement costs and other assets	31,323,509	29,940,440	26,746,689	25,155,662	23,825,476
Total assets	836,771,948	834,672,262	832,087,213	829,814,182	827,060,217
Liabilities					
Current liabilities	\$ 5,897,866	\$ 5,499,569	\$ 5,603,132	\$ 4,846,471	\$ 4,311,893
Other liabilities	25,102,649	24,020,423	21,911,231	21,513,194	20,706,697
Long-term debt—bonds, notes and mortgages	6,173,062	5,612,704	4,434,623	3,092,649	1,983,263
Equity (net capital deficiency)	(401,629)	(460,434)	138,227	361,868	58,364
Total liabilities and equity	836,771,948	834,672,262	832,087,213	829,814,182	827,060,217
Analysis of Changes in Equity (Net Capital Deficiency)					
Beginning balance	(\$ 460,434)	\$ 138,227	\$ 361,868	\$ 58,364	\$ 310,739
Net income (loss)	60,719	(596,910)	(222,686)	304,608	(251,480)
Capital contributions	(1,914)	(1,751)	(955)	(1,104)	(895)
Ending balance	(\$ 401,629)	(\$ 460,434)	\$ 138,227	\$ 361,868	\$ 58,364

Impact of Revenue Forgone Appropriation^{*} on Revenues Fiscal Year 1989

Classes of Service	Total Income of Service	Income from Revenues	Income from Appropriation	Appropriation as a Percentage of Income
<i>(dollars in millions)</i>				
First-Class Mail	\$23,234.4	\$23,234.4	none	none
Priority Mail	1,415.8	1,415.8	none	none
Express Mail	572.0	572.0	none	none
Mailgram	10.2	10.2	none	none
Second-Class Mail				
Within-the-county	\$ 131.8	\$ 100.3	\$ 31.5	23.9%
Outside-the-county				
Nonprofit publications	304.2	241.9	62.3	20.5%
Classroom publications	10.4	7.5	2.9	27.9%
Regular-rate publications	1,158.0	1,157.7	0.3	0.0%
Fees	11.9	11.9	none	none
Total Second-Class Mail	\$ 1,616.3	\$ 1,519.3	\$ 97.0	6.0%
Third-Class Mail				
Single-piece rate	\$ 203.4	\$ 203.4	none	none
Regular bulk rate	6,769.0	6,769.0	none	none
Nonprofit bulk rate	1,263.7	899.4	\$364.3	28.8%
Fees	51.7	51.7	none	none
Total Third-Class Mail	\$ 8,287.8	\$ 7,923.5	\$364.3	4.4%
Fourth-Class Mail				
Parcels (zone rate)	\$ 391.5	\$ 391.5	none	none
Bound printed matter	221.0	221.0	none	none
Special-rate matter	234.9	234.9	none	none
Library materials	62.2	59.7	\$ 2.5	4.0%
Fees	1.3	1.3	none	none
Total Fourth-Class Mail	\$ 910.9	\$ 908.4	\$ 2.5	0.3%
Free mail for the blind and handicapped	25.6	—	\$ 25.6	100.0%
International mail	1,081.2	1,081.2	none	none
Totals	\$37,154.2	\$36,664.8	\$489.4	1.3%
Adjustment for prior years			- 53.0	
Total			\$436.4	

^{*}Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is given to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

Source of Income, Fiscal Year 1989

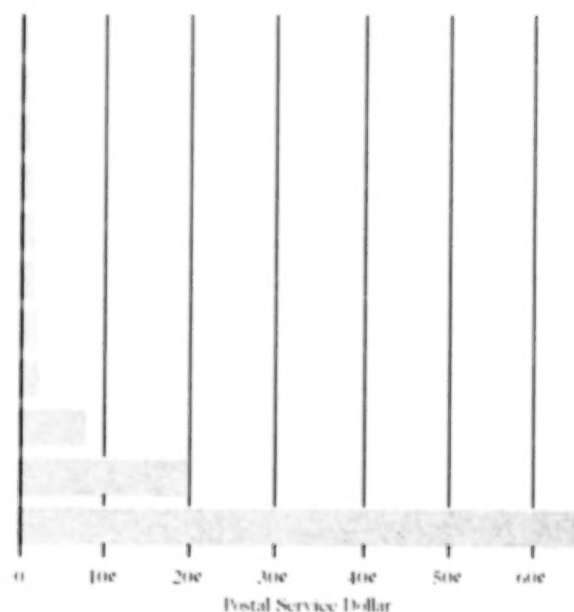
(dollars in millions)

Mail Revenue	836,664.8
Special services	1,313.9
Government appropriations:	
Revenue forgone appropriations for free and reduced rate mail	436.4
Total operating revenue	38,415.1
Total operating expenses	38,370.8
Income from operations	44.3
Interest income	504.5
Interest expense	(488.1)
Net income	\$ 60.7

Analysis of Expenses, Fiscal Year 1989

(Portion of Postal Service dollar by item)

Insurance claims and indemnities 0.17¢
 Printing 0.20¢
 Travel 0.36¢
 Interest on notes, mortgages and bonds 1.26¢
 Supplies and materials 1.33¢
 Depreciation and write-offs 1.56¢
 Rent, communications and utilities 2.15¢
 Other services 2.48¢
 Transportation 7.19¢
 Personnel benefits 19.45¢
 Personnel compensation 63.85¢



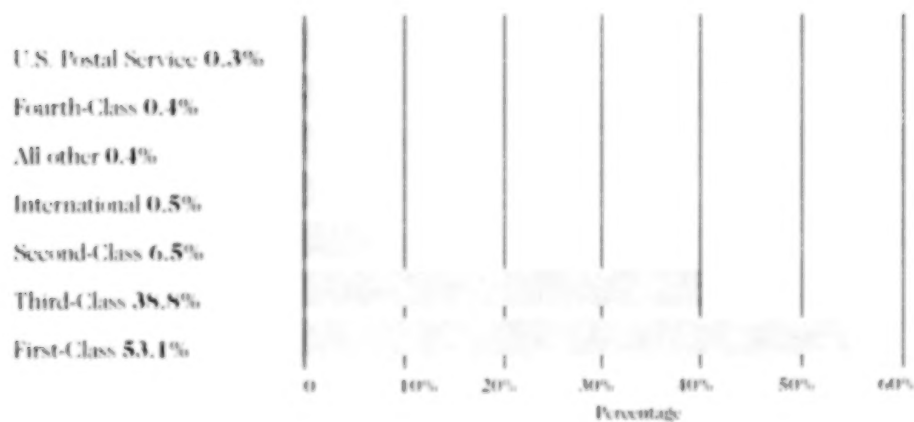
Analysis of Mail Volume, Fiscal Year 1989

	1989	1988 ^a	Percent Change
<i>(pieces in billions)</i>			
First-Class	85.86	84.75	1.3
Second-Class	10.52	10.48	0.4
Third-Class	62.78	63.25	-0.7
Fourth-Class	.63	.67	-7.1
U.S. Postal Service	.52	.53	-0.5
International	.72	.73	-0.3
All other	.57	.54	5.0
Total Mail	161.60	160.95	0.4

^a Beginning in Fiscal Year 1989, a new methodology was implemented which reports Penalty and Franked mail within their appropriate classes. Fiscal Year 1988 volume data have been recast to reflect these changes.

Composition of Mail, Fiscal Year 1989

(Percentage of total volume by class)



Operating Statistics

Classes of Mail	1989	1988 ^a	1988	1987	1986
	<i>(in thousands of units indicated)</i>		<i>(in thousands of units indicated)</i>		
First-Class					
Pieces, number	85,855,457	84,749,464	82,316,607	78,869,309	76,186,648
Weight, pounds	3,216,108	3,174,064	3,072,894	2,970,439	2,811,578
Revenue	\$23,234,417	\$21,402,234	\$20,738,733	\$18,786,027	\$18,034,926
Priority Mail					
Pieces, number	470,831	436,735	404,653	354,331	329,896
Weight, pounds	939,318	924,666	815,895	763,085	704,027
Revenue	\$ 1,415,820	\$ 1,329,170	\$ 1,219,898	\$ 1,085,636	\$ 1,010,709
Express Mail					
Pieces, number	53,308	45,628	44,120	41,531	40,095
Weight, pounds	98,810	84,592	81,789	76,832	125,325
Revenue	\$ 571,992	\$ 523,804	\$ 505,295	\$ 498,733	\$ 490,782
Mailgram					
Pieces, number	16,871	19,617	19,618	21,900	25,540
Revenue	\$ 10,193	\$ 11,831	\$ 11,832	\$ 13,361	\$ 17,469
Second-Class					
Pieces, number	10,523,374	10,483,435	10,448,439	10,324,309	10,587,904
Weight, pounds	4,169,919	4,118,140	4,107,698	4,012,421	3,971,641
Revenue	\$ 1,519,267	\$ 1,400,115	\$ 1,393,425	\$ 1,279,847	\$ 1,222,327
Third-Class					
Pieces, number	62,779,116	63,249,821	61,970,095	59,733,198	55,048,946
Weight, pounds	7,478,767	7,651,602	7,579,329	7,155,038	6,543,988
Revenue	\$ 7,923,511	\$ 7,311,334	\$ 7,130,662	\$ 6,147,551	\$ 5,606,268

^aFiscal Year 1988 data have been recast to reflect the new reporting methodology implemented in Fiscal Year 1989 which redistributes Penalty and Franked mail to their appropriate classes. Data for prior years are not comparable.

Classes of Mail	1989	1988 ^o	1988	1987	1986
	<i>(in thousands of units indicated)</i>		<i>(in thousands of units indicated)</i>		
Fourth-Class					
Pieces, number	625,932	673,769	649,330	615,230	602,006
Weight, pounds	2,196,129	2,335,516	2,205,450	2,178,673	2,254,271
Revenue	\$ 908,432	\$ 929,435	\$ 872,793	\$ 822,917	\$ 814,291
International Surface					
Pieces, number	165,799	176,352	174,144	266,966	315,734
Weight, pounds	139,443	137,986	136,928	148,138	153,750
Revenue	\$ 216,848	\$ 192,884	\$ 188,861	\$ 205,896	\$ 220,877
International Air					
Pieces, number	558,056	549,874	545,888	510,850	481,993
Weight, pounds	88,465	84,511	83,494	67,774	64,408
Revenue	\$ 864,308	\$ 798,750	\$ 782,705	\$ 751,256	\$ 713,249
Penalty^{oo}					
Pieces, number	—	—	3,081,089	2,644,744	2,969,799
Weight, pounds	—	—	444,501	452,841	468,930
Revenue	—	—	\$ 965,296	\$ 844,158	\$ 896,376
Franked^{oo}					
Pieces, number	—	—	798,357	507,019	751,769
Weight, pounds	—	—	19,656	13,875	17,441
Revenue	—	—	\$ 113,365	\$ 63,164	\$ 96,103
U.S. Postal Service^{ooo}					
Pieces, number	527,791	530,402	—	—	—
Weight, pounds	66,323	64,014	—	—	—
Free for the Blind					
Pieces, number	26,728	38,528	38,529	41,187	35,475
Weight, pounds	18,463	30,756	30,757	41,999	36,793
Totals					
Pieces, number	161,603,263	160,953,625	160,490,868	153,930,574	147,375,805
Weight, pounds	18,411,745	18,605,847	18,578,390	17,881,115	17,152,152
Revenue	\$ 36,664,788	\$ 33,899,557	\$ 33,922,865	\$ 30,498,546	\$ 29,123,377

^{oo}Beginning in Fiscal Year 1989, Penalty and Franked mail are included in their appropriate classes of mail.

^{ooo}Beginning in Fiscal Year 1989, the United States Postal Service official mail, formerly included with Penalty mail, is shown separately.

Special Services	1989	1988^a	1988	1987	1986
	<i>(in thousands of units indicated)</i>		<i>(in thousands of units indicated)</i>		
Registry					
Number of articles (paid and free)	48,939	50,280	50,280	52,427	52,348
Revenue	\$ 181,270	\$ 184,808	\$ 171,728	\$ 159,514	\$ 167,363
Certified					
Number of pieces (paid and free)	176,540	176,755	164,450	160,602	147,374
Revenue	\$ 284,394	\$ 260,897	\$ 251,667	\$ 222,973	\$ 202,927
Insurance					
Number of articles (paid and free)	34,878	35,151	35,130	40,006	39,783
Revenue	\$ 48,869	\$ 48,175	\$ 48,153	\$ 51,733	\$ 50,344
Collection-on-Delivery					
Number of articles	10,049	9,604	9,603	10,405	10,383
Revenue	\$ 26,993	\$ 20,678	\$ 20,679	\$ 19,569	\$ 19,528
Special Delivery					
Number of articles (paid and free)	2,212	5,311	5,000	8,440	10,232
Revenue	\$ 12,042	\$ 20,196	\$ 19,217	\$ 25,144	\$ 30,448
Money Orders					
Number issued	150,407	144,049	144,050	141,977	133,799
Revenue fees	\$ 147,771	\$ 141,510	\$ 141,510	\$ 147,525	\$ 134,647
Other					
Box rent revenue	\$ 362,318	\$ 295,630	\$ 295,630	\$ 273,262	\$ 258,582
Stamped envelope revenue	15,883	22,927	22,927	18,434	14,743
Other revenue, net	234,347	141,375	141,377	111,412	100,132
Totals					
Special services revenue	\$ 1,313,887	\$ 1,136,196	\$ 1,112,888	\$ 1,029,566	\$ 978,714
Mail revenue	36,664,788	33,899,557	33,922,865	30,498,546	29,123,377
Operating revenue	\$37,978,675	\$35,035,753	\$35,035,753	\$31,528,112	\$30,102,091

Employees	1989	1988	1987	1986	1985
Headquarters—L'Enfant Plaza	2,261	2,311	2,101	2,000	2,296
Headquarters—Field Support Units	5,854	5,677	5,792	5,552	4,207
Inspection Service (field)	4,256	4,146	4,278	4,262	4,387
Field career employees					
Regional Offices	431	437	431	595	3,261
Postmasters	27,178	27,774	27,735	27,352	27,811
Supervisors	44,569	44,170	43,076	40,723	39,034
Prof. Admin. Tech. Personnel	10,475	10,532	10,582	8,717	7,263
Clerks	294,128	296,712	296,360	290,225	278,462
Nurses	309	321	325	328	324
Mailhandlers	50,552	49,937	48,879	48,095	46,467
City Delivery Carriers	236,542	236,160	229,706	224,106	212,667
Motor Vehicle Operators	7,174	7,117	7,031	6,866	6,436
Rural Delivery Carriers & Substitutes on Vacant Routes	40,385	39,095	36,551	35,938	35,206
Special Delivery Messengers	2,107	2,146	2,209	2,295	2,289
Bldg. & Equip. Maintenance Personnel	32,642	32,418	31,047	30,155	30,332
Vehicle Maintenance Personnel	4,880	4,828	4,705	4,526	4,365
Total career employees	763,743	763,781	750,808	731,765	704,807
Non-career employees					
Casuals	18,663	25,043	9,621	20,675	9,157
Non-Bargaining Temporary	343	272	297	309	362
Rural Subs/RCA RCR/AUX	34,055	34,573	29,831	31,808	30,164
PM Relief/Leave Replacements	9,922	9,814	9,243	8,947	8,372

Offices, Stations and Branches	1989	1988	1987	1986	1985
Number of post offices	29,083	29,203	29,319	29,344	29,557
Number of stations and branches:					
Classified stations and branches	4,958	4,957	4,910	4,240	4,224
Contract stations and branches	4,297	4,294	4,087	3,965	3,856
Community post offices	1,693	1,663	1,714	1,721	1,690
Total	10,948	10,914	10,711	9,926	9,770
Grand total¹	40,031	40,117	40,030	39,270	39,327

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United States Postal Service
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